

BOOK REVIEW

*Integrating  
People  
Management  
into  
Public Service  
Reform*

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INTEGRATING  
PEOPLE  
MANAGEMENT  
INTO  
PUBLIC SERVICE  
REFORM

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

## ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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## FOREWORD

This report presents the results of a study of human resource management (HRM) reforms in the public service in OECD countries, undertaken between 1993 and 1995. The study was carried out under the direction and guidance of the Public Management Committee. The aim was to produce a concise analysis of trends and strategies in public service HRM over the past decade in OECD countries, to provide some assessment of reforms and to draw policy conclusions that may be of assistance in guiding further reform efforts.

The report deals with HRM reforms in the national public service, focusing on the ministries and agencies responsible for carrying out the policies of central government. The analysis is based on a comprehensive survey sent to central management agencies responsible for public service HRM in all OECD countries, and on detailed case studies undertaken in eight countries.

The study was prepared by Maria Maguire and Christine Lidbury of the OECD's Public Management Service. The authors would like to thank the OECD countries that participated in this study, the individuals who authored the country case studies and others who contributed to the development of the report. The views expressed are those of the authors and do not commit or necessarily reflect those of national authorities in the countries concerned. The report is published on the responsibility of the Secretary-General of the OECD.



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## SUMMARY OF KEY FINDINGS

### Context of Public Sector Human Resource Management Reforms

- o Since the late 1980s, most OECD countries have been engaged in human resource management reforms in their national public administrations. In general, the reason for changing the way people are managed in the public sector was very similar across OECD countries: economic strain on the public sector has increased the demand for greater efficiency and better quality in delivering public sector programmes and services, oftentimes with a smaller public service workforce as a result.
- Other major factors driving change including:
  - \* Efforts to strengthen managerial accountability.
  - \* Demand for increased transparency in public spending.
  - \* Changes in the labour market and the need for the public service to remain a competitive employer.

### Major Human Resource Management Reform Trends

- Decentralisation of responsibility for human resource management from central management bodies to line departments and agencies.
- Devolution of responsibility for human resource management within departments and agencies to line managers.
- o Policy “frameworks” and guidelines emphasizing basic standards and good practices rather than detailed controls.
- o Devolved budgeting for line departments and agencies which consolidates salary and administrative costs.
- More flexible pay, employment and staffing systems.
- Training and development measures to build skills, competencies and flexibility in the workforce to better meet programme demands and reinforce public sector reforms.
- Cost-cutting measures in the form of pay restraint, efforts to cut employment and pressures to produce efficiency gains.

## Summary Assessment of Country Experiences

- o There is no one approach to human resource management reform. Reform activities fall across a wide spectrum with a few countries on either end showing either fundamental reforms or very little change and the majority of countries at various points in-between.
- Despite stated commitments by most countries to human resource management reform, the pace of reform has often been slow with discretion and flexibility of line management hampered by detailed rules and regulations.
- The balance between central human resource management controls and managerial flexibility is still evolving and views vary between countries on the extent of managerial devolution that is desirable; however, the majority of countries appear committed to retaining a basic common core of conditions that apply across the public service.
- Reforms are often promoted by central management agencies, with successes tied to ongoing support from both the political level and some influential unit with overall responsibility for shepherding reforms.
- Human resource management changes across a broad front have **tended** to reinforce one another and to interact with financial management and structural changes to bring about a significant degree of change in the way the public service operates,
- Countries achieving the most change have made key reforms mandatory for line departments and agencies finding that, in the initial stages, relying purely on departments and agencies to develop human resource management initiatives is not effective. However, those countries that have achieved significant decentralisation emphasize that **as** the reforms progress, central agencies must relinquish control and line departments and agencies must participate actively in developing their own human resource management strategies and setting their own rules of operating.
- Devolution of financial management to line management is also an essential prerequisite for meaningful devolution of human resource management and functions **as** a powerful incentive for effective management of people.
- Once the basic reform framework **is** in place, the task becomes one of persuading managers and staff that changes are beneficial for the operations of the public service and encouraging their active involvement in the reform process.
- o Countries that have implemented significant devolution of human resource management are generally very positive about the results, reporting that it has:
  - \* Facilitated organisational change and greater diversity of practice between different departments/agencies.
  - \* Enabled departments/agencies to recruit and retain staff more easily and **to** manage their people more efficiently.
  - \* Increased management responsibility and accountability.



- \* Contributed to a sharper focus on efficiency and effectiveness, with positive impacts on service delivery.
  - \* **Improved** the link between policy and execution.
- Most OECD countries envisage a growing emphasis on human resource management reforms and the need to push those reforms further. The assessment indicates that the current thrust of human resource management reforms is likely to be maintained in the coming years.



## Chapter 1

### WHY REFORM HUMAN RESOURCE MANAGEMENT?

#### The Study

During 1993-95 the OECD's Public Management Committee undertook an assessment of human resource management reforms in OECD countries. The aims of this assessment were to identify the factors driving reforms and the main human resource management reform trends; compare and contrast approaches to human resource management reforms in different countries with a view to identifying promising practices; find out how implementation of reforms is progressing; and assess whether human resource management policies and practices are changing in ways that are consistent with broader public management reforms that aim at building more productive, performance-oriented and responsive public services.

The study focused on ministries and agencies of central government. The framework for the assessment was provided by the public management reforms that are being pursued in OECD countries. Key questions addressed were:

- To what extent are changes in the way people are managed being driven by public management reforms aimed at better performance, clearly defined accountability for results, better service to the public and value for money, and to what extent are those changes being driven by labour market pressures, efforts to cut costs, or other factors?
- How successful has implementation been and how much change is really taking place?
- What impacts are reforms having and are they leading to the desired results?

In exploring these questions, the study looked to see whether similar reform trends and models could be identified across countries, or whether the factors at work and the policies being pursued were, instead, quite varied. The study examined, in particular, decentralisation and devolution of human resource management; the development of performance-management practices; measures to improve skills and competencies; and changes in pay, employment and staffing practices.

In undertaking this assessment, the aim was not to identify some "ideal" approach to human resource management in the public service. No *a priori* assumption was made that all OECD countries are seeking to move in the same direction or have identical reform priorities. Rather, the aim was to examine how and why human resource management in the public service is changing in the context of the public sector reform objectives expressed by governments.

The information for the assessment was collected from two main sources. First, a survey to the central human resource management agency or agencies in all OECD countries was carried out in 1993. The survey was designed to provide an overview of human resource management reform priorities and trends. Secondly, based on the results of the initial survey, case studies were undertaken

(during the period 1994-1995) in selected departments and agencies of eight OECD countries.<sup>1</sup> The case studies focused on **three** policy areas: decentralisation of human resource management from central management agencies to line departments and agencies **and** devolution to line managers; alignment of human resource management strategies with broader corporate goals and strategies; and the impact of reforms on human resource management and, ultimately, more effective and efficient service delivery.

### Factors driving reforms

Impacts during the 1980s and 1990s of recessions in national economies, increased globalisation, after-effects of the oil shocks, chronic debt and growing unemployment resulted in an increasing dependence of businesses and the public on public sector programmes and services. The cost of national government increased, while **at** the same time the national public sector was viewed **as** less responsive and effective in the delivery of its growing list of services by those it served. New Zealand's situation reflects the issues faced by many national administrations:

... for New Zealand to make its way in the world and overcome the problems associated with chronic debt [would require] exposure of all sectors of the economy to the forces of competition. ... In facing the enormity of the changes required, the Government saw New Zealand's State sector, with its traditional focus on resource distribution, regulation and control, and with relatively little transparency in its processes **and** activities, not so much **as** a tool for reform, but as a significant part of the problem. It felt the State cost too much, contributed too little to wealth-generating production, and was a dead weight in our society.

(from an unpublished report to the OECD's Public Management Committee, 7 April 1994)

In response to a series of economic pressures and a lack of faith in the institutions of government to address them, governments have begun, in varying degrees, to rethink the business and cost of government. Much attention is being given to setting strategies to increase accountability and move away from the traditional focus on inputs and control, and toward a focus on results within **an** environment that nurtures fresh ideas and creativity in achieving those results. It is important to note that while most OECD countries have at least **started** down the path of major public service reform, not all countries faced recession and other economic pressures at the same time or even to the same degree. Differences have affected both the timing and the goals for realigning government institutions. For example, New Zealand began the process of radical reform in the early 1980s, while the United States has only recently engaged in a major reassessment of the role and operations of the national public sector.

Given that people are the primary resource of the public service, we would expect that any fundamental reassessment of the institutions of government would include a focus on human resources management. In fact, our assessment confirms that new approaches to the management of people in the public service have been adopted in most OECD countries over the past decade, and especially since the late 1980s. In general, the reason for changing the way people are managed was very similar across OECD countries: economic strain on the public sector has increased the demand for greater efficiency and better quality in delivering public sector programmes and services, oftentimes with a smaller public service workforce **as** a result. The influence of these factors on changes in systems of human resource management in the national administrations of OECD

changes in systems of human resource management in the national administrations of OECD countries was reinforced by the case studies undertaken as part of this review.

Increased attention to human resource management as a strategic management tool stems from a clearer recognition amongst countries that more effective management of people in areas such as pay and employment practices, working methods, organisational culture, and job satisfaction, will lead to more effective and efficient public service organisations. There also appears to be growing acknowledgement that institutional change must include at the outset an assessment of how the people who carry out the business of government will be affected by changes and how they can best be brought along to achieve the desired outcomes.

Other factors reported as driving human resource management reforms in OECD countries included:

- customer service and responsiveness, stressing the belief that government should be more customer-driven, provide opportunities for customer feedback and ensure client satisfaction;
- transparency in accounting for how public money is spent on pay for civil servants and other programme costs;
- globalisation, including, in several European countries, integrating into the European Union or adapting to conform with directives from the European Commission;
- maintaining a quality public sector workforce, including the ability to compete effectively with the private sector for qualified personnel and the need to provide greater job satisfaction and improved career paths.

The influence of staff-management relations and changing expectations about the work environment should not be underestimated in influencing reform priorities. The case studies indicate that internal factors play a key role in driving and shaping organisational change, particularly in the area of human resource management. For example, the career composition of the public service in many OECD countries is changing, shedding lower-level clerical and technical positions in favour of high-skill technical and professional occupations. The resulting influx of highly trained young people in recent decades into the public sector workforce has influenced attitudes about managing public servants and has led to more flexible and participatory management structures. Young, highly educated professionals appear less willing to accept the command and control management styles that typified public administration in earlier decades. Similarly, these workers are achieving management positions at a younger age than the previous generation and demanding more flexibility in managing their own staff, more effective work environments and enhanced career opportunities. Several countries expressed concern that in order for the public sector to remain a competitive employer it must remain attuned to the needs of workers and responsive to calls for new principles of people management.

In the broader sense it is also important to recognise the significant contributions by workers and their unions in initiating changes in the workplace and seeking ways to achieve more effective public organisations. An important message in this regard is that public servants are not merely acted upon in reform scenarios, but have been active agents in setting and promoting reform agendas in many OECD countries.



## HUMAN RESOURCE MANAGEMENT REFORM TRENDS<sup>1</sup>

### General Observations

The study highlighted strikingly similar reform trends and priorities in many OECD countries, although the strategies used to achieve these reforms often varied greatly. Annexes I through 3 provide summary information on human resource management reform trends in OECD countries. As shown in Chart 1, countries reported a wide variety of initiatives to introduce or improve human resource management programmes during the period 1987 through 1992.<sup>1</sup> Schemes to reduce the size of the public sector workforce, and decentralisation and devolution of human resource management appear as the most commonly reported human resource management initiatives. Other commonly reported reform initiatives included new management development programmes, classification and job design reforms, equal employment opportunity initiatives, and more flexible working time arrangements (e.g. permanent part-time work, flexible hours, job sharing). It is interesting to note that reforms in these areas are not concentrated in any one group of countries, but span a wide geographic, administrative and political spectrum (see Annex 1).

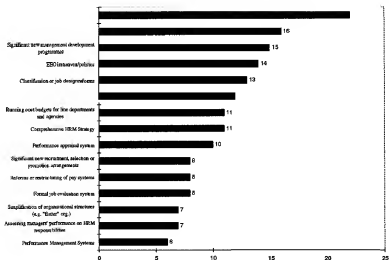
In general, Australia, New Zealand, Sweden and the United Kingdom, are pursuing fundamental public management reforms which are transforming the nature of public service employment and people management. Wide-ranging changes are also underway in the Netherlands, the other Nordic countries (Denmark, Finland, and Norway) and, to a lesser extent, in Canada and the United States.

In many of the southern European countries, reforms are focused more on modernisation and rationalisation of personnel systems than on integrating new philosophies of management. In these countries, irregularities in staffing practices (e.g. recruitment, promotion, classification and pay structures), and even the legal status of public servants, were seen as negatively affecting productivity, efficient use of public monies, and equity principles of merit and fairness. Reforms have included, for example, greater use of competitive examinations (e.g. Greece, Italy, Spain) and more centralised entrance procedures (e.g. Turkey), designed to promote more rational, equitable and merit-based staffing systems. In these and several other OECD countries, the bid for more effective and productive organisations has also linked human resource management reforms closely with broader management issues such modernisation of information technology, and in some cases, integration into the European Union.

Human resource management reforms have been much more limited in other OECD countries, during the period of this review, leaving traditional (often centralised) systems, and principles of people management relatively unchanged for the present. In countries such as Austria, France, Japan, and Switzerland, reforms have been mainly "project-based," responding to individual human resource management concerns (e.g. changes in working hours, equal employment opportunity policies, increased emphasis on skill building of workers and managers) in line with changes in the labour market or skill requirements of the workforce, but not linked to an overall reorientation of human

resource management systems or structures. This is not to minimise the importance of these more ad hoc reforms. Japan, for example, reported its major human resource management reform during the period of this review as shortening the working hours of national public servants to a five-day work week with the aim of economy and lead employers in other sectors to follow suit.

Chart 1. Number of OECD countries reporting programmes introduced or significantly revised during the period 1987 to 1992



Efforts to reduce public service employment and other cross-cutting budgetary measures in the form of pay restraint and pressure on departments and agencies to produce efficiency gains are continuing elements of human resource management reforms and remain high on the agenda in most OECD countries. As illustrated in a number of the case studies, pressure to streamline and produce efficiency gains can be a powerful spur to implementation of human resource management reforms; however, **unless** cost-cutting measures are **linked** to broader organisational reform strategies, or co-ordinated with existing reform priorities, they may undermine those strategies and strip morale and dynamism from the public service.

Decentralisation of responsibility for human resource management from central management bodies to line departments and agencies, accompanied by further devolution within departments and agencies to line managers, stands out as one of the key reforms of the recent period. Among countries implementing reforms in this area, increased flexibility and autonomy for human resources management are widely perceived as being crucial factors in promoting more efficient and effective management and organisations generally in the public sector, and in improving the overall quality of services provided to the public. The benefits of decentralisation and devolution of human resource management were also cited by a number of countries as contributing to management reforms aimed at improving motivation and performance (especially managerial performance) and inculcating a greater performance orientation in the public service workforce,



## Decentralisation and Devolution of Human Resource Management

The most extensive devolution of human resource management has occurred in New Zealand and Sweden, where the policies are to minimise the involvement of central management bodies in the human resource management activities of departments and agencies. There has also been substantial devolution in Australia, although more central control has been retained over pay and conditions of service, employment structures, classification standards and base grade recruitment than in New Zealand and Sweden, reflecting a concern to maintain a common core of human resource management principles across the Australian public service. Significant devolution has also taken place in Denmark, the Netherlands and the United Kingdom, although the approach has tended to be more cautious than in the three countries mentioned above. Elsewhere, decentralisation and devolution are more limited, although Canada, Finland, France, Ireland and Norway have made some efforts to this end and report that they are, along with Italy, Portugal, Spain, Switzerland and the United States, committed to further increasing the human resource management flexibility provided to line departments and agencies. The planned degrees of flexibility vary greatly between countries, however.

For several other OECD countries, increased devolution and decentralisation do not appear to be a priority. In Japan, for example, ministries and agencies are relatively independent with regard to staffing matters (i.e. recruitment, promotion, mobility) within centrally determined policy frameworks, and there are no plans at present to further decentralise. In Greece, Portugal, Turkey, and to some extent Spain, the current priorities are in areas such as pay and grading, job descriptions, recruitment and employment status and mobility. In some cases policies in these areas are moving in the direction of centralisation rather than decentralisation.

Managerial devolution has, for the most part, concerned the operational aspects of human resource management, with responsibility for policies retained by central management agencies (see Table 2 of Annex 1, and Annex 3). Chart 2 shows the areas where OECD countries report providing line managers with increased flexibility for human resource management functions. The more detailed information on increased flexibility provided in Annex 3 suggests that while central agencies retain influence over policy setting, the emphasis in implementation is shifting away from detailed central controls over the human resource management activities of departments and agencies, toward looser policy frameworks, guidelines and definitions of basic standards. Within such frameworks, departments and agencies have greater freedom to tailor human resource management practices to their own staffing needs. For example, in the United Kingdom, as part of the "Next Steps" initiative, agencies replaced a centralised system of human resource management rules and regulations with a framework of management principles covering areas such as recruitment, terms of employment, pay structure, allowances, and training and development. The framework has been an evolving document designed to facilitate managerial discretion and decision-making, while preserving public service core principles such as equity, fairness, merit, and financial accountability.

Chart 2. Number of OECD countries reporting on areas of increasing flexibility for line management during the period 1987 to 1992



The areas which continue to be subject to the most control by central management agencies, across OECD countries, tend to be those affecting personnel costs (e.g. pay determination, staff numbers, job classifications); senior public servants (e.g. basic terms and conditions of employment and management); conduct and discipline, health and safety, and equal employment opportunity policies. Even in these areas, however, practices appear to be shifting toward greater flexibility for line departments and agencies. For example, budgeting for human and administrative resources, traditionally an area of tight central control, is being increasingly devolved to the agency and even line manager level. An increasing number of countries are replacing detailed financial and staffing controls with some form of running-cost system or frame budgeting where salary costs and administrative expenditures are consolidated, eliminating detailed controls by the central agencies over staff numbers, classification and, in some cases, pay. Under such systems, the central agencies generally participate in setting the budget frames or targets, but the line agencies are free to operate, within the prescribed limits. It was evident from several of the case studies that increased flexibility for line-managers in determining how to best allocate budget resources has gone hand-in-hand with advancing devolution of human resource management functions.

### Pay and Classification Systems

Changes affecting pay systems have also figured prominently in reforms, with an emphasis on gaining greater flexibility and linking pay determination more closely to productivity, performance and recruitment and retention needs. Across the board, the challenge has been to reconcile the desire to control public sector pay bills with the desire for increased flexibility in pay systems. The result has been two major contrasting approaches to pay reform<sup>4</sup>: decentralising pay determination to the

department and agency level (as in Australia? New Zealand, the United Kingdom, and the Nordic countries); or, maintaining relatively centralised systems of pay determination while seeking flexibility by other means (e.g. through local pay variations or changes in job classification systems).

In a small number of countries human resource management reforms have included extensive changes in job classification structures and industrial relations systems. Here again reforms have ranged from radical changes in some countries to marginal adjustments in others. In addition, the classification profile of many public services appear to be changing, as noted in the Australian case study in Annex 4, where re-structuring and shedding of activities resulted in reductions in the proportions of technical staff and lower-level administrative staff, and a relative increase in skilled and white collar workers. In response, multi-skilling (cross-training workers to function in several jobs within a work team, department or office) and "life-long" learning (ongoing training over the lifetime of a career) are strongly encouraged. In Australia, for example, an increasing number of the agencies are providing services by client-oriented teams that provide managers with greater staffing flexibility in matching individuals with complementary skills, as well as offering enhanced ability to reconfigure teams in response to changes in client demands or skill requirements.

### Staffing Practices

Reforms of staffing practices are often integral to and may even underpin larger management reforms aimed at improving the efficiency and effectiveness of government services. With the exception of a few countries, the shift has been toward increased decentralisation of staffing practices -- even amongst countries not generally seeking broad scale devolution and decentralisation of human resource management functions. The broad base of reforms in this area, across OECD countries, appears linked to a recognition that there is no one blueprint for selecting and developing staff to meet individual agency resource needs. In this regard, the need for line agencies to have more effective and flexible staffing tools in areas such as selection, placement, career planning, and mobility and deployment of staff, were specifically cited as an impetus for reform by many countries. The benefits of increased flexibility for staffing practices were also cited by a number of countries in the context of staffing reduction programmes and the structural human resource management issues that arise from downsizing policies (e.g. imbalances in the skill mix in an agency's or department's workforce, stalled career paths, resistance to change, and low morale).

### Ethics and Codes of Conduct

Ethical issues and codes of conduct for public servants were reported by approximately half of OECD countries as an area of increasing importance in recent years. The reasons offered for this increased emphasis varied, including issues such as the need to articulate key values and standards of conduct clearly in a more devolved management environment and fear of corruption connected with public tasks being increasingly performed by contractors. Several countries also reported concern regarding ethics in connection with devolved judgements and decision-making on remuneration.

### Other Reform Priorities

Although not reported as consistently as major reform priorities, several additional human resource management issues were highlighted as areas of ongoing attention in many OECD countries (see also Annexes 2 and 3), including:

- Increased use of contract employment of various types for senior civil servants.
- Training and development programmes for line staff to ensure needed skills, competencies and flexibility are maintained in the current workforce, particularly in relation to downsizing or restructuring initiatives.
- The spread of certain private sector performance management techniques (e.g. performance appraisal and bonus systems) in the public service. Up to two-thirds of OECD countries have introduced some type of system of individual performance review or appraisal, although in many cases the systems are partial and in their infancy.<sup>1</sup>
- Performance-related pay has been introduced, to varying extents, in a number of OECD countries.<sup>2</sup>
- Privatisation has been carried out in several countries, although it was reported as a major reform in the period covered by the survey only in the Netherlands.
- Equal employment opportunity (EEO) measures have been introduced in the national administrations of most OECD countries. However, the comprehensiveness of such measures, the importance attached to them and the extent to which progress with EEO objectives is monitored regularly is highly variable between countries.
- Streamlining procedures for terminating employment, along with appeal and grievance procedures, have been elements of human resource management reform in many countries, although reforms seem to be more difficult to achieve in this area.

### Progress of Human Resource Management Reforms

Nearly all countries engaged in reform have adopted a gradualist approach to implementing reforms, introducing changes on a step-by-step basis over a number of years with implementation taking place on an ongoing basis. New Zealand is the only exception to the pattern among OECD countries, having introduced radical changes in the space of just a few years. In terms of attaining significant reform of human resource management, however, the rapidity of change is probably less important than the ability to maintain the momentum of change over time. Moreover, this momentum must be maintained at both the political level, to maintain public and high level support, and at the staff level to maintain internal motivation and co-operation. In seeking out scenarios that lead to successful human resource management reforms, the experiences described in the case studies underscore the idea that successes build upon successes. This is most often the case where human resource management reforms are designed and implemented as part of a coherent reform framework within which key human resource management changes build upon and reinforce each other over time.

### Chapter 3

## ASSESSMENT OF COUNTRY EXPERIENCES: REFORM STRATEGIES AND IMPACTS'

### General Observations

The results of a more detailed assessment of reform strategies in the area of human resource management provided by the case studies (see Annex 4) underscores the fact that the reform strategies are highly context specific and shaped by the cultural and institutional details of each particularly country. This was particularly evident in terms of the amount of managerial devolution and flexibility that different countries appear willing to implement for human resource management policies and practices. As a result there is no one successful path to human resource management reform. As a measure of contrast, for example, both Spain and New Zealand report initiatives for major public sector re-organisations and management reforms, and would judge progress to date as quite successful. In New Zealand control over the public sector employment relationship in the national administration has been decentralised from the central management agencies to the heads of individual departments and agencies. Overnight, chief executives took on most human resource responsibilities previously exercised by a central personnel agency. Human resource management was viewed as a strategic tool for executives seeking to achieve larger goals of more effective, efficient and rational delivery of public sector services. In contrast, Spain's numerous human resource management initiatives carried out over the past ten years constitute less a coherent and integrated strategy than a series of steps taken over a period of time with the overall aim of modernising human resource management in the public service. The modernisation task is expressly seen as one requiring time, involving the steady replacement of the old bureaucratic structures with systems that are often more standardised. A key factor in Spain's modernisation process has been the introduction of information technology. In Spain's reform agenda for human resource management, the kind of "new managerialism" found in New Zealand's reform agenda, although present in some reform elements, has not been a driving force.

The case studies supported our survey findings that most countries engaged in large-scale human resource management reform have opted for evolution instead of revolution in developing and implementing their reform strategies. Countries implementing wide-ranging reforms expressed concerns over the risks attached to radical and rapid reform in terms of potential for costs and programmatic failures that could affect citizens at all levels of the economy, as well as the careers of many thousands of public sector workers. There are also well founded concerns about the capacity of the public sector workforce to adapt quickly to the skill and cultural changes needed to sustain radical reform. Officials in New Zealand report, however, that the risks attached to engaging in radical reform were less than those attached to simply maintaining the status quo. New Zealand's success with a radical approach is attributable, in large part, to starting out with a coherent integrated implementation strategy which allowed the government to maintain both momentum and a clear vision for the reform agenda over a period of more than ten years. It has been suggested however, that the small size of the public sector and national demographics (small, well educated, geographically

compact population) in New Zealand, relative to most other OECD countries, may have had much to do with its capacity to engage successfully in radical reform (unpublished report to the OECD Public Management Committee, 7 April 1994).

Slow progress in implementing reforms may also result, in part, from uncertainties about the right amount of devolution or the costs and benefits of minimising the role of central management bodies in human resource management policies and practices. For example, several countries voiced serious concerns that the potential for loss of a service-wide perspective or a unified "public service" culture may outweigh the potential benefits of relatively autonomous agencies operating in a more business-like way. Progress may also be hampered by tensions between decentralisation and increased flexibility in pay and staffing systems, on the one hand, and, on the other hand, by a focus on reducing the cost or size of the public sector workforce. Reports by both staff and management in the course of the case studies underscored the negative effect of staff reductions on morale and productivity. Case study interviews also revealed perceptions among some public servants that reforms were thinly veiled attempts to reduce funding for staff salaries, cut programme operating budgets, or scale back the rights and protections of employees. As is illustrated perhaps most clearly in the Canadian case study, uncertainty and insecurity among public sector employees regarding staff reductions and programme cutbacks has severely limited the ability of management to undertake more positive human resource management and organisational reforms.

There was also some indication from the case studies that human resource management reforms may be impeded by low morale on the part of middle managers, who are often viewed as part of the problem in reform agendas rather than part of the solution. Oftentimes neglected in consultations about management reform strategies, and often one of the targets of human resource management reforms, mid-level managers are subsequently relied upon to implement devolution or new human resource management policies, and, moreover, serve as a linchpin in communicating new values and culture to line staff. It should not be surprising that groups which are (or perceive themselves to be) the target of reform initiatives would be less supportive of those initiatives in circumstances where they do not receive information about reform goals and strategies, or opportunities to participate in the decision-making processes.

Evolutionary human resource management reform is most successful where individual initiatives are connected by a clear reform strategy (as in Australia, Netherlands, Sweden, United Kingdom). An important element of reform planning in these countries involved identifying the critical levers of change and allowing those key reforms to carry other reforms along with them (for example, creating a more flexible pay system which allows for more flexible staff planning and enhanced performance management). Such a reform strategy must be distinguished, however, from ad hoc and reactive reforms which are often only surface remedies for more systemic problems. Such measures respond only to immediate staffing or budgetary pressures, but do not envisage a larger focus on the system of human resource management, and may even be contradictory (e.g. increasing pay flexibilities, while tightening central controls over staffing numbers or detailed budget allocations).

The pace of reform was found to vary significantly, even within departments in the same country. In the case study interviews, many managers voiced concerns about having to take on new responsibilities for managing their own people at the same time as they were also undergoing major structural and organisational changes. Although the case studies would suggest that individual departments faced with multiple levels of change (e.g. structural, personnel, cultural), also tended toward strategies of progressive change rather than sudden, radical reform. In Australia, for example, flexibility in pacing changes was cited as an important factor in mitigating problems with "change fatigue" and staff morale. The central management agencies expressed somewhat different concerns

in this regard, worrying that too much variation in the pace of reform between departments might result in a tiered system with organisations in the same country operating at different levels on the reform curve. At the extreme, such differences could place great stress on central management agencies facing radically different support needs, making it difficult for the centre to shift away from a hands-on focus on human resource management practices to a focus on broader strategic policy and planning.

Similarly, there were significant differences in the extent to which individual departments and agencies had availed themselves of new human resource management flexibilities. The areas where departments and agencies have made the most of new flexibilities include flattening of organisational structures, reorganisation of the way work is done, and taking control of training and development. However, less appears to have changed in terms of adopting more flexible or tailored pay and grading systems, although departments and agencies in New Zealand, Sweden and the United Kingdom have begun to take advantage of the freedoms available to them in this area.

In most countries engaged in large-scale human resource management reform, the reforms have been top-down, initiated by the government and driven by central management agencies, at least in the initial stages. The countries where most change has subsequently occurred in human resource management have been those in which there has been continuing support for reform at both the political level and in the upper echelons of the administration, where an influential unit or agency within the public service has had overall responsibility for overseeing implementation of reforms, and where adoption of the key reforms has been mandatory for departments and agencies (for example, Australia, Netherlands, New Zealand, Portugal, Sweden, and the United Kingdom). Relying purely on departments and agencies to develop their own initiatives for reforming human resource management on a voluntary basis does not seem to be an effective strategy, at least in the initial stages of the reform process.

Once the basic reform framework is in place, the task becomes one of persuading and encouraging line departments and agencies to work with new human resource management systems. The case studies suggest that this is more likely to happen where departments and agencies are given some degree of flexibility to tailor new policies to their own needs and organisational cultures. This is true even in countries which are not seeking decentralisation on a large scale. In addition, for those countries that are seeking to promote decentralisation broadly, it is particularly important that once the centre has started to give away power that it be able to step back and change its role with respect to oversight and control. There is strong consensus on this point among OECD countries that have implemented extensive devolution of human resource management, noting further that there is a tendency for the centre to be reluctant to relinquish full control and for it to attempt to maintain a hand on the reins. Countries well on the path to decentralisation also recommend an explicit strategy to shift the focus of the central personnel agency narrowly to those areas where the centre should have a continuing role as, for example, in succession planning and career management in relation to top posts or in promoting promising practices and core principles across the public service.

## Downsizing

Staff reductions (downsizing) is one area where, in most countries, the centre continues to maintain an active role in developing detailed policy strategies and directing human resource management activity. During the period of this review, attrition, voluntary redundancies, re-deployments, early retirement options, financial incentives to leave public sector jobs, or some combination of those factors, were widely used and often successful in meeting reduction targets

while minimising forced reductions and layoffs. It is important to note, however, that while voluntary reduction programmes may be successful in people terms, they may prove costly and perhaps prohibitive for some national administrations in budget terms (for example, in the cost of severance packages or other financial incentives for voluntary resignations such as “buy-outs”, and increased stress on pension funds). Downsizing policies mentioned in some of the case studies also highlight the tensions that may exist between social expectations regarding job security “safety-nets” for outplaced workers (e.g. proactive job search programmes, training or financial payments) and budgetary restrictions that may limit the range of services or the size of the “safety-net” governments decide to offer those workers.

Labour unions are also playing an important role in staffing agreements to downsize the public sector workforce and restructure government organisations in several OECD countries. In Sweden, for example, labour-management co-operation and strong social expectations about employment security resulted in a new system for outplacement of redundant employees and marked a turning point in allowing the national administration to reorganise, reduce and even discontinue agencies. Sweden reduced its state workforce by approximately 24 000 employees (out of 370 000 total) over a three year period. However, in OECD countries generally, downsizing may prove increasingly difficult and controversial with unions as further reductions are needed and fewer staff are willing to leave by voluntary measures.

### **Decentralisation and Devolution**

The amount of human resource management flexibility available to managers is an important predictor of the amount of managerial change that has occurred in the national public services of OECD countries. Countries that have sought significant decentralisation and devolution of human resource management functions (e.g. Australia, Denmark, Ireland, the Netherlands, New Zealand, Sweden, the United Kingdom) reported that such reforms were instrumental in shifting from a rule-bound management culture to a performance-based management culture. These countries are generally very positive about devolution and decentralisation of human resource management, reporting that it has, in turn, supported broader organisational reforms by:

- promoting greater diversity of human resource management practices between different departments and agencies, and providing the capability to better tailor those practices to specific programmatic needs;
- enabling departments and agencies to recruit and retain needed staff more easily and manage their people more efficiently in order to meet organisational goals;
- increasing the responsibility and accountability of managers and enabling them to operate in a more pro-active manner;
- contributing to a sharper focus on efficiency and effectiveness, with positive impacts on service delivery and responsiveness;
- improving the link between policy and implementation.

One of the principal concerns raised in regard to decentralisation, and particularly devolution, was the need for “risk management” and accountability mechanisms in relation to shifting resource management responsibilities. On the positive side, it was clear from the case studies that chief executives working in largely devolved environments continue to see themselves as career public



servants and custodians of the public purse. **This was** noted most strongly in the New Zealand and Australian case studies, but may be generalised across the case studies. In each of the countries, traditional public sector values of merit, equity, fairness and ethical behaviour continue to influence human resource management policies and practices. These values constrain the risks executives and managers are prepared to take. They remain aware that their employment policies may become subject to closer public scrutiny than would likely be applied to a private sector **firm** and that they must not needlessly expose their Minister or other public officials to risk through unacceptable or controversial practices. Public officials also remain aware that they are responsible to the public to ensure that public services are not jeopardised or needlessly subject to increased costs through risky management practices.

On the other hand, managers **currently** assess changes brought about by devolution and decentralisation more positively than **do** line **staff**. Negative comments by staff often reflected changes in the nature of the public sector employer-employee relationship in the context of increased authority on the part of line agencies and managers for human resource management. Public sector unions have raised concerns about the dilution of lines of accountability combined with increased discretion in how personnel policies are implemented **and** the potential for mismanagement. For example, employees and their unions have expressed concern that there is increased temptation on the part of line managers to use re-structuring and staff reduction exercises as “back door” opportunities to target **and** eliminate individual workers, particularly workers they view as poor performers, thus reinforcing the need for formalised accountability mechanisms to ensure staffing practices remain fair, open and rational.

A number of other concerns about decentralisation and devolution of human resource management have also emerged from reviews of reform programmes in several of the above countries, including:

- problems of co-ordination between central management agencies and confusion about the respective roles of these agencies and the control they exercise;
- fears of losing a service-wide perspective, with a tendency for departments and agencies to focus on their own affairs, and a consequent threat to coherence within government;
- the need to ensure that fundamental principles and values regarding public service employment (e.g. merit, fairness, equity) remain intact across the service;
- **loss** of capacity to generate information on service-wide human resource management matters;
- shortages of skills required by agencies as they gain more responsibility for their own **affairs**, particularly as regards training and support for managers to handle new human resource management responsibilities.

Despite these concerns, these countries (e.g. Australia, Denmark, Ireland, the Netherlands, New Zealand, Sweden, the United Kingdom) show no desire to draw back from decentralisation and devolution; rather they are addressing needs to implement mechanisms for co-ordination and accountability **and** frameworks to promote desired service-wide practices and values. It is important, however, that these concerns not be minimised. **At the time of this review**, few, if any, countries felt they had adequately come to terms with issues of delineating and enforcing accountability for shifting responsibilities. In addition, concerns over other systemic public service issues such as maintaining

policy coherence and the potential for losing a unified public service, remain active topics of discussion in several countries, including Australia, the United Kingdom and the United States.

While evaluations of reforms aimed at devolution and decentralisation of human resource management are favourable, overall, these reforms must be viewed as work-in-progress. This is particularly true as regards devolution. In several countries central management agencies have begun to give away power, only to have it re-centralised with the central personnel offices of line departments and agencies. There is some indication from managers that central personnel offices within line agencies remain cynical about the capacity of line managers to adapt to the kind of managerial culture needed to support devolved human resource management systems. In the Netherlands, for example, reduction of staff in the central offices of ministries has corresponded to increases in human resource management staff at the directorate level. While the rhetoric of reform in the Netherlands is one of decentralisation and movement toward private sector flexibilities for line managers, managers interviewed in the course of the case studies indicated that in practice they remain under considerable restrictions in hiring and managing their staffs. Similar views regarding restrictions on managerial flexibilities were echoed by managers in Canada and in several other countries in which the case studies were undertaken.

### **Devolution and the Position of Line Managers**

For those countries seeking devolution of human resource management responsibilities, line managers sit at a crucial junction between human resource management policy and implementation, positioned at the point of service delivery and, as well, the carriers of organisational culture to line staff. As a result, a significant measure of the success or failure of human resource management reform initiatives based on devolution can be said to rest on the ability of line managers to adapt reform principles to daily staff management. The case studies indicate, however, that explicit strategies to bring line managers along on the path to reform, or even give them the tools needed to carry out reforms, are often lacking.

Despite a stated commitment in many OECD countries to increased devolution of human resource management to line managers, in practice, there is still a long way to go in terms of giving line managers comprehensive authority to manage their people. Even in Sweden, where extensive devolution has occurred, managers interviewed in the case study reported that in some areas human resource management is still hedged around by an extensive network of detailed rules and regulations, particularly as regards relations between employers and employees and conditions of the workplace, that limit the discretion and flexibility available to them. Such concerns were less commented upon by managers in New Zealand, however, which has perhaps the greatest level of devolution.

Similarly, while central management agencies in Canada, France and Spain, along with several other countries, report a reduction of central agency involvement in areas such as classification, control of staff numbers and recruitment, the case study interviews with managers in these countries suggest that line managers often feel very restricted by central rules and regulations affecting the management of people. The spread of performance appraisal and flexible pay arrangements which are administered by line managers has been one area that has contributed to a more active role in managing staff, although the degree of discretion built into pay and appraisal systems is often less than line managers would wish. In general, however, the desire for more managerial autonomy was consistent across the case study countries. On the other hand, central management agencies often felt that managers have been slow to take full advantage of the new flexibilities available to them. While this would appear to be at odds with the broad call by managers for greater flexibility and autonomy,

it suggests important shortcomings in reform strategies, particularly in the areas of support and training. Moreover, managers report being reluctant to accept human resource management responsibilities when the delegations are seen as partial, feeling that they lack the tools to successfully tackle new responsibilities and feeling that much of the authority needed to "manage" a staff (e.g. control of budget, staffing, pay, classification, flexibility regarding performance management) remains outside their control.

The case studies also revealed concerns about the ability of line managers to carry out devolved human resource management responsibilities and the adequacy of the training and support managers are given in their new role. Managers interviewed in the case studies often reported being unprepared for the magnitude of their new human resource management responsibilities and surprised to find how difficult and time consuming such functions were to carry out (for example, more so than financial management responsibilities). In New Zealand, for example, there were considerable reservations about the extent to which departments had provided sufficient training for line managers in their radically new role. The unions in New Zealand also voiced major reservations about training provided for managers in relation to new human resource management responsibilities. Training was reported as being often inadequate or belated. Where training was available, managers often did not avail themselves of it early in the reform process and lacked a clear understanding of the skills and competencies needed to carry out their new human resource management responsibilities. Similar views were expressed in the context of our case studies in other countries.

Even with the best of intentions, there is great potential for failure and setbacks of reform agendas when support for managers (e.g. training, guidance, accountability, and information to help take on new skills and responsibilities) is not sufficiently integrated into devolution strategies. Such problems were noted, for example, by some managers interviewed in the Australian case study. Without adequate support and communication, countries run the risk of finding themselves with managers who are either afraid to make use of new flexibilities, tying their own hands in order to avoid mistakes, or too eager to grab onto flexibilities leaving staffing, financial or legal problems in their wake. Such factors underscore the importance of attitudinal and cultural change to the successful implementation of devolution, as well as the often steep learning curves involved at the line manager level, and the considerable length of time required (counted in years rather than months) to take on and learn to work with new management responsibilities.

Much of the success of implementing human resource management devolution appears to turn on integrated strategies to provide line managers with support and guidance, and to hold them accountable for newly delegated functions. Moreover, the extent to which line managers are held accountable and given incentives for their performance on human resource management functions plays a pivotal role in ensuring that reforms grow into a new management culture rather than simply a new set of tasks. Many managers still do not regard human resource management as an important part of their work, saying that it is neither rewarded nor valued institutionally. As a result, they reported setting human resource management activities aside when faced with the daily pressures of programme management. There may also be transition problems with the current generation of managers who were not schooled in integrating human resource management functions into their management role. Organisations must make a concerted effort from the highest levels of the organisation to instil the value of human resource management functions into the management culture to forge the linkages between human resource management and core business planning, and to integrate human resource management functions into training, performance appraisal, performance management and reward systems.

## Key Role for Training and Development

Staff movements and structural adjustments have left public service agencies in several OECD countries with temporary shortages of personnel and skills. As a result, training, rotational assignments and other developmental measures to increase skills and flexibility among the workforce are gaining visibility. Training is increasingly being included in corporate plans highlighting the strategic importance of building skills and competencies needed to meet programme demands and ensure longer-term success with reforms aimed at more customer-service and commercial oriented environments (e.g. Australia, France, Ireland, Netherlands, Spain, United Kingdom, United States). For example, a key element of the training strategy in Australia includes the assessment of staff competencies which are used to build personal development agreements, starting with middle managers and moving downward through the organisation. Since 1988 in France, three-year framework agreements on continuous training have been made with the unions at the national level, along with ministerial departments on multi-year training plans. At the same time, training funds and activities, including those at the inter-ministerial level, are being decentralised. The main themes addressed in these agreements are human resource management, new technologies, adapting to European integration, and reception and services provided to customers.

Several countries have established service-wide frameworks for human resource development, explicitly linking training and development strategies to the overall public service reform strategies (e.g. Australia, Canada, Denmark, Ireland, New Zealand, United States). In this context, departments and agencies are encouraged to develop their own programmes (and, in some countries, to devote a specified level of resources to these programmes) tailoring them to agency-specific management needs and organisational strategies. Development of managerial and leadership skills is also a priority for many public services and, for example, in several countries programmes have been developed around a set of core competencies that senior managers are expected to acquire (Australia, Canada, New Zealand, United Kingdom and United States).

According to our survey, the most widespread interest in training activities for managers was in response to new skills needed to take on delegations of human resource management, and other financial and organisational responsibilities. As noted above, however, reports from the case studies indicate that the rhetoric on training is currently at odds with the reality. There is also concern that budget restrictions may further stifle progress in this area. The experiences outlined in the case studies underscore the need for reformers to take a long-term view of training as an key investment in a reform agenda, rather than simply an added cost.

## Role of the Centre in a Decentralised Environment

An overwhelming concern voiced by top management and the central management agencies was the lack of clarity in re-thinking the role of the centre in a decentralised human resource management environment. In part, the difficulties reflect the complex nature of the debate which includes overlapping issues regarding the appropriate functions of central management agencies in co-ordinating personnel policies in a decentralised environment; dilution of accountability; loss of economies of scale; desirability of maintaining "unity" of human resource management practices and policies across a public service; and, similarly, loss of a common esprit de corps in the public service and a unified agenda of serving a common good.

It is dangerous to generalise in this area as there are also significant differences of principle between countries in the way the role of the centre is perceived. In the United Kingdom, for example,

the role of the centre regarding human resource management is now seen primarily in terms of ensuring that public expenditure and performance targets are met, and with identifying and disseminating advice and best practice, rather than laying down detailed strategies for the management of people. This is also the approach taken in Australia and New Zealand, where the aim is not to decide people management strategies from the centre, but rather to devolve the strategies so that departments and agencies can participate and set their own operating rules. Strengthening strategic capacity for human resource management and refocusing the role of the central personnel agencies is also a concern (to varying degrees) in Denmark, Finland, France, the Netherlands and the United States. In France, for example, decentralisation of staff recruitment and management was begun in 1989. Further, a 1992 law set down the principle that state business is to be carried out by the decentralised services, limiting the role of the central administration to design, co-ordination, orientation, evaluation and oversight. As noted earlier, other countries, such as Japan, Germany, Spain, and Switzerland, are leaving the traditional role of the centre, involving more detailed management and oversight of human resources, relatively unchanged for the present.

One of the key issue for countries in devolving or decentralising human resource management authority away from the centre is ensuring accountability. While seemingly obvious, an important message underscored by the case studies was that increasing flexibilities to line departments and agencies and line managers does not mean abdication responsibility either at the central level of government or at higher levels of agency management. While there are no uniform solutions to balancing responsibility in a decentralised environment, several countries stressed the need to ensure a strategic view of human resource management and a framework delineating the different levels of responsibility (i.e. central, agency, ministerial, managerial) within which decentralisation and devolution can take place. In practice, however, all countries engaged in decentralisation have found it difficult to develop and enforce clear-cut frameworks for accountability. Moreover, countries raised significant concerns about the difficulties in holding any single party responsible for human resource management. This may be in large part due to the fact that devolution and decentralisation have included mainly the operational aspects of human resources management, while, as noted earlier, the policy-making has been retained by the centre. The result is a large degree of mixed, and perhaps not always clear divisions of, accountability between central and line agencies.

There also remains considerable confusion about the appropriate functions of central agencies and the degree of control they should continue to exercise, particularly as regards monitoring and central oversight functions. Countries engaged in decentralisation reported difficulties in finding balance between the desire to promote autonomy for line departments and line agencies and concerns about cross-cutting administrative issues such as identifying economies of scale (i.e. centrally or via co-operation between departments and agencies); the extent to which appropriate accountability mechanisms for human resource management are available and in place before practices are devolved or delegated away from the centre; and how line department accountability can be balanced with activities by central agencies to monitor compliance with selected service-wide requirements (e.g. good employer practices, equal employment opportunity or affirmative action programmes).

### **Decentralisation and a Unified Public Service**

New thinking on the role of the centre in a decentralised environment is also focusing attention on the extent to which devolution and other managerial reforms may result in the loss of a service-wide perspective or a dilution of core principles and values that are viewed as basic to the operation of a public service. In assessing whether decentralisation is an appropriate reform goal, many governments are confronting philosophical questions about the nature of "public service" and

what separates the conduct of public sector programmes from private sector businesses, particularly as regards finding a balance between individual and collective interests. Evaluating the kinds of benefits that may be gained or lost by decentralisation of human resource management policies and practices is becoming an important issue, particularly in the Westminster-type countries (Australia, Canada, Ireland, New Zealand, the United Kingdom).

The Westminster-type countries have long fostered the idea of a national public service, including traditions of uniform treatment of public service employees in terms of their pay and conditions of work. With devolution and the dissolution of these uniform rules and regulations, cohesiveness is being redefined through a more abstract set of principles and values, resulting in a radical change in the factors that define the public service and lending cohesion. Continental European countries (e.g. Belgium, France, Germany, Spain, Switzerland) also place high value on a unified public service; for these countries, however, devolution of human resource management and a corresponding move away from centralised, uniform human resource management systems is perceived by central management agencies as running a risk of undermining unity of the service and is strongly opposed by employees and their unions. This places a significant brake on any move to greater devolution. On the other hand, the transition to increasingly devolved human resource management has been easier, in many respects, in the Nordic countries, where the public service has traditionally been employment-based, with individuals identifying their attachment to individual agencies rather than a "national service" corps.

Debate over what central features and common elements should be retained in the public service and how much devolution is desirable is far from resolved and will continue to be a key public management issue in coming years, even in countries that are well down the path of decentralisation. It is worth underlining, however, that the majority of countries are seeking to devolve more managerial control (in greater or lesser degrees) to departments and agencies. Those countries, such as New Zealand, which are furthest down the track toward devolution have no doubts that this has facilitated positive changes in the culture of the public sector, motivating managers and workers to focus on performance and service delivery, and injecting a new-found energy and dynamism into the public service.<sup>3</sup>

### **Need for Comprehensive Reform Strategies**

A comprehensive reform strategy for human resource management is a key requirement in shifting the public service towards a more performance- and service-oriented set of values and behaviours. However, only in a handful of countries (Australia, Denmark, the Netherlands, New Zealand and Sweden) have changes in human resource management been closely integrated into the overall public management reform strategy from the outset. Elsewhere, changes in human resource management have come later in the reform process, have been less obviously a part of an integrated reform strategy and have often been more partial and ad hoc. It is clear from the case studies that human resource management changes across a broad front have tended to reinforce one another and to interact with financial management and structural changes to bring about a significant degree of change in the way the public service operates. While there has been little in the way of rigorous cost-benefit analysis of human resource management reforms, the perception of management in departments and agencies and of central management agencies is that the reforms have made a significant contribution to improving staff performance, overall efficiency and standards of service.

Where reform in human resource management reforms have been ad hoc (rather than linked with larger reform goals) or partial (responding to individual problems but ignoring underlying systemic

problems), implementation has often encountered problems. In Canada, there is a strong relationship between the government's determination to pare the cost of government and the degree to which reform objectives can be met. The reform initiatives brought forth during the late 1980s and early 1990s (such as Public Service 2000) are currently being reconsidered in light of a major restructuring of government that began in mid-1993, as well as more recent policies for major programme and staff reductions. Such changes would by necessity produce such extensive changes in the Federal workplace, that a new orientation of human resource reform activities will be essential. In the Netherlands, on the other hand, human resource management reforms have been implemented successfully as part of broader public management reforms aimed at providing market orientation, increasing flexibility and effectiveness, and making the public service a more attractive employer. While reforms in the Netherlands did not appear as one strategic plan for the public sector, as in New Zealand, the philosophy and the aims have remained consistent and human resource management reforms have worked in tandem with the more general goals for reforming public sector programmes and services.

A simple, but significant goal of any comprehensive reform strategy is to ensure that managers have adequate the tools to put and keep the right people in the right positions. Thus, an important element in a comprehensive human resource management reform strategy is to ensure adequate flexibilities in pay and classification structures, and other relevant staffing practices, to allow managers to recruit, select and place needed staff. This is particularly important in an environment where public service organisations are engaged in reducing their activities or staffing levels or both. Managers coping with reorganisations and resource reduction expressed serious concerns that their programmes will be left with a mismatch between remaining workers and skill requirements of the remaining jobs. Moreover, there is concern that incentive programmes for staffing reductions (early retirement or severance packages) are targeted at occupations rather than individuals, managers have little control over which employees stay or leave. For example, with severance or "buyout" packages (providing cash payments for individuals willing to leave their jobs voluntarily), there is particular concern that high skill or high performing employees, those most marketable outside the public sector, may be more likely to accept such an incentive. Several countries reported that in the wake of staffing reduction programmes, individual agencies were left with shortages of employees in some occupations, loss of expertise and, in some cases, loss of the most highly skilled and motivated workers.

Similarly, it is important to ensure that top management has adequate tools to place and keep the right mid-level managers in the right positions. In some countries this may require reassessment of management selection processes that limit flexibility in staffing key management positions and that may otherwise serve to reinforce old values and principles. For example, in countries where managers are very often promoted on the basis of length of service, these managers tend to maintain the status quo and may not be receptive to change (e.g. Belgium, Canada, France, United States). It is this "entrenchment" that leads mid-level managers, in particular, to be viewed as part of the problem rather than part of the solution in addressing organisational and management shortcomings. In the near-term, addressing problems of managerial entrenchment will need to involve strategies to ensure managers are integrated into the reform process and have input into goal setting and implementation strategies. Over the long-term, however, it may require fundamental rethinking of seniority based systems.

Finally, the role of top management in shaping values and setting strategic direction is also critical element in establishing a coherent framework for human resource management reform. In this context a principal task for top management is to ensure that it has the capacity within its ranks to shape values and convey them through the organisation. This message came through clearly in the

case study interviews. Much attention was given to the idea that senior leadership must give its attention to strategic issues such as promoting performance management (i.e. focus on outputs or outcomes, rather than inputs), developing strategies aimed at changing culture, selling reform priorities to staff and maintaining public interest in reform agendas, rather than on the details of everyday budget and personnel management. This capacity is best developed in Australia, New Zealand and the United Kingdom, although it is also a focus of attention in countries such as Sweden, Canada, the Netherlands, and the United States.

### **Core Business Planning and Human Resources Management**

In making the transition to instituting management reforms as part of every-day operations, nearly all of the organisations examined in the case studies acknowledged the importance of integrating human resource management policies and practices with the broader corporate strategy of the organisation. Devolution of human resource management to departments and agencies, in particular, implies a much closer integration of human resource management with organisational goals, and the strategies for achieving those goals, than has been typical of public service organisations in the past (this was noted most strongly in New Zealand and the United Kingdom). However, most organisations felt they still had some way to go in achieving a satisfactory level of integration. In several of the case study countries, corporate planning processes were only beginning to be developed and even where such processes were already in place, human resource management planning and strategies were often not yet well integrated. In most of the organisations reviewed in the case studies, there were weaknesses in the ability to translate human resource management objectives into specific targets and strategies which could be used for business and performance planning systems. Shortcomings in this area hark back to the difficulties in most departments and agencies in delineating clear lines of responsibilities for human resource functions and establishing accountability mechanisms. Moreover, very few organisations were successful at linking individual goal-setting and performance reviews to outcomes in the form of larger organisational performance targets. For large departments and agencies in particular, devolution raises the issue of insufficient co-ordination and organisational focus in human resource management unless there is effective strategic integration. This issue emerged, for example, in some organisations in New Zealand and Sweden where there had been extensive devolution to line units.

Integrating human resource management effectively and in a strategic way with the business of the public service and, indeed, the business of individual agencies goes to the core of human resource management reform. The perspective from New Zealand summarises the pivotal position of integrating human resource management into core business planning:

"I would suggest that the key issue of human resource management reform is a matter of education and convincing people that improvements to the public service are good for the conduct of business. .... The biggest issue for New Zealand has been the link between human resource management and the business that departments are involved in. This is a matter of assessing what the customers of public services want, establishing business objectives and specifying performance standards. It is then possible to describe those objectives and standards through output descriptions and to plan their delivery through the use of human, physical and information resources. This is what we believe to be a modern strategic approach to human resource management."

(New Zealand public official)



In practice, however, nearly all countries have found it difficult to develop the capacity for such strategic thinking about human resource management. Here again, the influence of "new managerialism" can be seen on countries such as Australia and New Zealand, which have had some success in this area. These countries are explicitly linking human resource management policies to corporate planning in annual budget and planning activities as a means to push top management and central human resource management agencies to be less concerned with the day-to-day management practices and focus, instead, on strategic thinking about how people management and the resources needed to support people management can best be used to carry out the business of the department or agency.

In establishing a corporate focus, there is also a strong interdependence between financial management reforms and efficiency measures on the one hand, and human resource management reforms on the other. Reports from the countries in our survey, as well as the observations made in the case studies, strongly reinforce the idea that devolution to line managers of responsibility for financial management is an essential prerequisite for any meaningful devolution of human resource management. Moreover, giving line managers increased control over their financial resources is viewed as a powerful incentive for more effective management of people. Efficiency measures involving a requirement for departments and agencies to produce clearly specified outcomes with a reduced resource base also provide a strong incentive for improved management of people (as, for example, in Sweden, Australia, New Zealand and Executive Agencies in the United Kingdom).

### **Performance Management**

Performance management systems are a vital instrument in the process of linking the management of people with corporate goals and strategies. Yet, such systems are, with a few exceptions, not well developed in the public service. The most highly developed system is in New Zealand, where the system of purchase contract agreements between departments and the government makes it imperative that departmental outcomes are tightly managed and that the work of employees contributes to the desired outcomes and only to these outcomes. In practice, departments have found that it takes a considerable length of time to get performance management systems established and that achieving the desired linkage between individual, unit and corporate target-setting is far from easy. Experience in a number of other public services bears out this finding. Significant attention has been given to establishing performance management systems in Australia, Canada, the United Kingdom and the United States, with varying degrees of success. Performance management is much less developed in the other countries studied, although a number of departments in the Netherlands, France and Spain have put in place systems of performance agreements with managers, based on organisational goals. Most of the above countries, along with several of the Nordic countries and Ireland, operate performance pay schemes for at least some groups of civil servants.

A previous study by the Public Management Committee suggests that many performance pay schemes are not functioning effectively.<sup>1</sup> Common problems include the subjective appraisal of performance for pay purposes, lack of staff confidence in performance appraisal ratings and the distribution of performance pay awards, excessive standardisation of schemes and control by central agencies, and insufficient funding. The study found little evidence that departments and agencies were using performance pay to implement their corporate strategies or to shape the culture of their organisations. This may be changing however. In the United Kingdom, the devolution of pay determination to larger agencies is enabling them to develop their own performance pay arrangements. In Australia, several of the departments included in our case studies felt that the individual performance pay schemes introduced in 1991 for the Senior Executive Service (SES) and senior

managers were at odds with the team-work culture which they were trying to promote. While Australia's service-wide scheme for the SES remains in place, the introduction of workplace bargaining in 1992 was welcomed as providing more scope for better tailoring performance pay arrangements to organisational needs. In the United States, agencies are encouraged to develop their own schemes following the demise of the service-wide scheme covering middle managers and supervisors. The case studies also revealed examples of individual and group bonus schemes in some agencies in Spain and Sweden, with rewards linked to the achievement of work unit goals derived from corporate goals.

Some countries have also developed formal systems of performance review and appraisal linked to performance agreements as a means to hold managers accountable for specified functions and outcomes. Such systems are most developed in the Westminster-type systems (Australia, Canada, Ireland, New Zealand, United Kingdom). However, as noted earlier, practices to integrate business plans and resource allocation processes with individual performance plans are less well developed. Elsewhere, the approach tends to be less formalised and, indeed, there appears to be a desire in some countries that highly developed and formalised performance management techniques are inimical to the public service culture.

## Evaluation

There is a clear need for greater evaluative capacity in countries engaging in management reform, as well as new thinking on the value of systematic evaluation as an investment, rather than a cost. The lack of deliberate and measured evaluation, in nearly all countries, stands in sharp contrast to the amount of time, energy and resources devoted to establishing reform priorities, proposals and implementation strategies. The exceptions to this phenomenon are New Zealand and Australia which have attempted major evaluations of management improvement strategies and their links with resulting changes in the performance of programmes.<sup>10</sup> The United Kingdom has also conducted extensive inquiries on the progress of public sector reforms generally, but these have not focused much on human resource management reforms.

In nearly all OECD countries, however, conclusions as to the success of human resource management reform initiatives rest on the weight of anecdotal evidence. In part, evaluation may be lacking simply because many human resource management initiatives are too recent or not yet fully implemented. It may also reflect the difficulty of finding suitable quantitative indicators for many reform measures. Difficulties in monitoring and assessment may also occur when decentralisation shifts oversight (and data collection) from the central management agencies to departments, resulting in trade-offs between the need for central agencies to monitor reform and the desire to free the agencies from past bureaucratic and time consuming data reporting tasks. Nevertheless, the possibility of quantitative assessment, or at least the systematic use of objective indicators to assess the progress and outcomes of reforms would seem to merit more attention.

Monitoring, evaluation, and adaptation are an important part of implementing an accountability framework to ensure human resources are managed appropriately to achieve broader corporate goals. As part of increasing the focus on accountability, several countries have at least attempted to develop mechanisms for better management of financial resources and programme delivery with an eye toward enhanced customer service and value for money. Few agencies, however, have included human resource management in this evaluative process. In weighing the benefits of evaluation, it is also important to consider that in a devolved environment, a central evaluation of management systems

may be the only method of assessment that runs across government agencies, providing a complete picture of the reforms in practice and how they contribute to the overall functioning of government.

### Balancing Competing Reform Pressures

OECD countries engaged in large-scale human resource management reforms are finding themselves caught up in a juggling act -- responding to demands from the public and politicians to modernise people management and refocus the public service on providing "client centred" services (as one means to help restore public confidence in government institutions); to create a flexible public sector workforce capable of responding quickly to changing social needs and service demands, and, in some cases, to compete successfully with the private sector for services that had previously been public monopolies; and responding to budget pressures to reduce the cost of the public sector workforce. The reality of human resource management reforms has been that while many countries have made progress toward one or more of these goals -- and certainly none of these agenda items is mutually exclusive -- the budget pressures have often won out, resulting in management reforms aimed primarily at reduced programme costs, staffing costs or both.

Anecdotal evidence from interviews conducted for the case studies undertaken in this review suggests that reforms based primarily on achieving cost savings have a negative affect on productivity and the working environment. In this regard, it is important to highlight the fact that it is difficult, if not impossible, to demonstrate this observation empirically. As noted earlier, few government departments have highly structured performance measurement processes in place, making objective assessment of productivity and conclusions about its decline difficult and unreliable. That said, the consistency in observations makes it difficult to dismiss the conclusion that cost-driven initiatives for staff and programme reductions create uncertainty about future employment prospects and have focused employees' attentions on their personal situations rather than the workplace. It is worth noting, however, as a point of strategy that while successful reforms tend to reinforce each other, change piled on top of change, particularly when involving staffing reductions and structural re-organisations, has a draining effect on both staff and management.

In the medium-term, governments may find new resistance among employees and their unions to continue austerity-type reforms as overall fiscal and labour market conditions improve. Unlike private sector companies which may turn economic largess back into the company through higher staffing levels and increased wages, government will face political and social pressures to maintain a smaller and more cost effective public service. Some countries, such as Australia, are using gainsharing and other productivity incentives to reduce costs while maintaining the momentum for further reductions. In general, however, maintaining motivation on the part of workers and managers to continue making sacrifices for restructuring, or even to agree to the uncertainty of new public management practices, is likely to pose significant challenges without explicit strategies to encourage risk and change.

Ongoing stringency in the public purse toward public employees may also be seen as a demonstration of a lack of respect for public employees. This phenomenon applies in several countries where as a result of almost continuous restructuring, the ability of public managers, workers and unions to perceive reform as positive or even desirable may be largely diminished. This suggests the need for a new "contract" to define the employer-employee relationship, perhaps incorporating a new concept of "public service," in order to restore morale and motivation to the public service.

## The Need to Push Human Resource Management Reforms Further

Most OECD countries envisage growing emphasis on reform of public service human resource management in the coming years. The most commonly reported priority for the future is further emphasis on training and development, especially development of management skills and competencies. Other priorities mentioned by a number of countries include:

- developing strategic human resource management in departments and agencies;
- improving management and monitoring of devolution of human resource management, and increasing attention to **issues** of co-ordination and central steering;
- securing increased mobility for employees within the public service;
- increasing flexibility and tailoring of human resource management to the needs of departments and agencies;
- more flexible pay and grading structures;
- workforce reduction and policies for exit from the public service.

The scale of reforms and their desired and real outcomes vary significantly across the eight countries reviewed in the case studies. In general, however, anecdotal evidence suggests that progress is being made toward using human resource management more effectively as a tool for achieving larger public reform goals. Regardless of the nature of human resource management reform (e.g. devolution or centralisation), it was clear from this review is that human resource management is only one element in an overall management philosophy. Many managers interviewed in the course of this review reported that human resource management reforms have led to positive strides in offering better front-line customer service, e.g. better trained staff, simplified procedures, more open processes, fewer points of contact, maximised accessibility, and opportunities for client feedback (Australia, **Canada**, New Zealand, Spain).

Perhaps the strongest cross-cutting message is that one of the most significant areas for human resource management reform in the coming years must be strategic integration of human resource management into core business planning activities. The centres of government must allow departments and agencies (and through those agencies, employees and their union representatives) to participate in formulating human resource management policies and integrate human resource management as a tool of organisational reform into their individual operating and agenda setting structures. However, whether the activity is recruitment, training or staffing reductions, finding ways of improving public service management and staffing practices is only part of the equation. The key factor lies in integrating human resource management and human resource management reforms with the core business of the public service, the outcome and output goals of individual departments and agencies, and, in doing so, ensuring that human resource management is recognised as an indispensable resource for accomplishing the business of government,

## *Chapter 4*

### **POLICY RECOMMENDATIONS**

The assessment points to a number of human resource management issues that will require attention by most OECD countries in the near- and medium-term. While it is explicitly acknowledged that there are no uniform solutions to people management or human resource management reforms, the results of this assessment suggest a number of human resource management principles across most OECD countries that contribute to developing more flexible, efficient and responsive public institutions.

#### **A. Develop a strategic approach to managing people**

Policies and practices for managing people in the public service should be clearly aligned with overall strategies for ensuring the quality, effectiveness and efficiency of public services.

Comprehensive strategies for improving the management of people should recognise the linkages and interdependencies between different areas of human resource management in the public service, and should be developed and promoted throughout the public service as a matter of priority.

In the early stages of the reform process there should be an influential central unit or agency within the public service, with continuing high-level political support, responsible for driving human resource management reforms forward.

Once key reforms are achieved, the role of the central management agencies should focus less on control and prescription and more on disseminating best practices and promoting effective strategies for change.

Human resource management policies and systems should be sufficiently flexible to be capable of being tailored to the particular needs of individual departments and agencies. In this context different countries will need to define which are the core elements that should be standardised across the public service and which elements should be open to increased flexibility.

Rules and regulations affecting the management of people should be reviewed and streamlined where necessary to ensure that they are contributing to and not inhibiting managerial efficiency and effectiveness.

High priority should be given to finding ways of integrating human resource management with the core business of the public service. Similarly, line departments and agencies should have sufficient freedom to develop their own strategies for integrating human resource management with

their own core business activities. Human resource management should be an integral part of corporate planning and management processes.

Devolved budgeting and tight accountability and resource frameworks are an essential part of any meaningful devolution of authority to line managers, allowing them to manage their staff, determine appropriate staff size and allocate resources within an agreed resource base and a framework which sets out basic budgetary principles to which they must adhere.

#### **B. Articulate and promote key human resource management principles and values**

The key principles and values underpinning the management of people in the public service should be clearly articulated and communicated across the service. Central management agencies, reform units, top management and other influential groups have a critical responsibility in this area. The continuing validity of traditional principles -- for example, equity, ethical conduct and political impartiality -- should be emphasised, alongside values such as efficiency, accountability and flexibility.

Public servants need to be aware of the standards of conduct expected of them, especially where they are operating in a more discretionary management context. To this end, codes or guidelines on the conduct of public servants may need to be developed or reviewed. Particular attention should focus on how best to ensure the application of such codes or guidelines across the service.

Human resource management policies and practices should adhere to principles of equal employment opportunity (EEO), and progress in improving the employment situation of EEO target groups should be monitored regularly against agreed standards. Attention should be given to developing members of EEO target groups into line and senior management positions, particularly where management structures are being flattened and opportunities for advancement are limited.

#### **C. Ensure performance oriented management that links individual staff performance with organisational goals**

High priority should be given to the development of performance management systems so as to ensure that individual performance is being managed effectively in the context of broader organisational goals and activities.

Policies and practices relating to promotion, pay, training and development, performance appraisal (including appraisal tools such as ongoing feedback from managers and peers, and mentoring), procedures for dealing with inefficiency, and other relevant aspects of human resource management should be part of an integrated approach to performance management.

Particular attention should be given to the performance of managers in managing their staff, especially in a devolved environment, and to establishing processes for holding managers accountable for their performance of human resource management functions.

**D. Raise the profile of training and development as a key element of strategic human resource management**

High priority should be given to developing strategies and actions for improving skills and competencies of staff across the public service.

Particular attention should be given to the development of effective programmes to foster leadership and management skills, including the skills needed to manage people in a devolved environment.

Departments **and** agencies should develop their own programmes for training **and** development **and should** integrate the allocation of resources for these activities into corporate strategic development (such as strategies for improving the quality of service) and budget planning.

**E. Ensure conditions of employment and working arrangements support the staffing needs of the public service**

Staffing practices such as recruitment **and** selection, promotion, performance appraisal, and training and development should be clearly linked to organisational goals and priorities.

Pay **systems** and conditions of employment should be reviewed to ensure that they are consistent with and contributing to increased productivity and efficiency.

In the interests of promoting labour market flexibilities, more flexible working and employment arrangements **should be** introduced. It is important, however, to consider the interests of part-time, temporary and other non-traditional workers to ensure they are treated fairly and have adequate benefits.

**F. Invest in monitoring and evaluation of human resource management practices or programme of reforms**

Human resource management practices should be monitored and evaluated on a regular basis to ensure that they are contributing to more efficient **and** effective management of **people** and the achievement of desired programme outputs.

## NOTES

1. Case studies were undertaken in Australia, Canada, France, the Netherlands, New Zealand, Spain, Sweden and the United Kingdom.
2. In comparative analyses of human resource management reforms across OECD countries, it is important to note that cross-national surveys have limitations, particularly in assessing how cultural and other internal factors drive or impede reform agendas. Nevertheless, the existence of a number of common reform trends and priorities suggest that comparative analysis can be useful. Many OECD countries are interested in the possibility of learning from strategies used in other public services, particularly those with some institutional similarities.
3. Information on human resource management reforms and priorities was collected from the central management organisations in OECD countries via a survey and supplementary material supplied by the countries. In general, the survey requested information for the preceding five year period (1987 through 1992). Additional information human resource management reforms was provided through the Public Management Committee's annual Public Management Developments Survey.
4. See OECD, 1993a; OECD, 1994a; and OECD, 1994b.
5. See OECD, 1993b.
6. See OECD, 1993b.
7. The discussion of reforms is confined to more general observations concerning human resource management strategies and outcomes. The information is drawn primarily from the case studies provided in Annex 4. A more detailed discussion of these issues is developed in each of the individual case studies.
8. See New Zealand State Services Commission, 1991.
9. See OECD, 1993b.
10. See Australian Public Service, Task Force on Management Improvement 1992; New Zealand State Services Commission, 1991. Both reviews were generally positive in their assessments of reform implementation and strategies.  
The Australian Task Force concluded that "a return to the previous arrangements, even if possible, would not be desirable. The new framework has strong support and is seen, overall, to have increased the cost effectiveness of the Australian Public Service including outcomes for clients. Overall, the evaluation concludes that the reforms as a whole have had a positive impact, although scope exists for improvement in implementation" (page 43). As regards HRM reforms in the Australian Public Service, they report that: "Collectively staff selected HRM as the reform area which **has** had the greatest positive impact on the quality of their work over the past three years and also the one which should be given the greatest priority over the next three years. A heightened emphasis is needed in this area to respond adequately to the notable changes which have transpired in organisations by "settling" the reforms introduced over the past ten years." (page 13).



In New Zealand, reviewers concluded that “the framework of the reforms is sound and substantial benefits are being realised. We were particularly impressed with the very positive reaction from senior managers. Their view, supported by Ministers and other observers, is that performance has improved in most key activities as a result of the reforms. ... [However,] there has been confusion about both the direction of the reforms and the roles and responsibilities of central agencies in facilitating reforms . ... Implementation of reform requires that a change strategy be developed which bring the people who are charged with making systems work in the process of change. Issues such as culture, management style, attitude and skill requirements need to be taken into account to smooth the process of implementation. Above all there is a need to develop a shared commitment to the objectives of the reform programme led by senior ministers, from which should flow participation and a sense of ownership.” (page 11)

## GLOSSARY OF TERMS

**Accountability:** used to denote a hierarchical relationship within which one party accounts to the other (a person or body) for the performance of tasks or functions conferred. Accountability goes hand-in-hand with devolution and flexibility such that managers are held accountable for results once they are given the authority to make decisions that are part of producing those results.

**Departments and agencies:** used for line ministries and offices, distinguished from central management bodies such as the Ministry of Finance, the Budget Office, the Ministry of Public Administration, and the Prime Minister's Office.

**Decentralisation:** used to refer to the granting of greater decision-making authority and autonomy by central management bodies to line departments and agencies.

**Devolution:** used to refer to the granting of greater decision-making authority and autonomy by departments and agencies to their subordinate bodies and within departments and agencies to lower levels of management, including line-managers.

**Effectiveness:** the extent to which objectives (of an organisation, policy or programme) are achieved or the relationship between the intended and actual effect of outputs in the achievement of objectives (e.g. the extent to which the condition of hospital patients improves as a result of treatment).

**Efficiency:** the relationship between resources (inputs) and outputs produces (e.g. nurse hours per occupied hospital bed day). An efficient activity maximises output for a given input or minimises input for a given output. Efficiency measures take the form of output/input **ratios** (productivity) and expenditure/output ratios (unit cost).

**Outcomes:** what is achieved in relation to objectives, to be distinguished from outputs, which measure what is produced or done. For example, using fewer resources compared with plans, previous performance or performance of other organisations.

**Performance Management:** the systematic approach to performance that generally involves the encouragement or mandating of a regular management cycle under which:

- programme performance objectives and targets are determined;
- managers have freedom over processes to achieve them;
- actual performance is measured and reported;
- this information feeds into decisions about programme funding and design and organisational or individual rewards or penalties; and
- the information is also provided to review bodies.

**Public Sector:** in this report refers to the central government departments **and** agencies (civil service); it **excludes**, generally, the wide public service (e.g. defence forces, police, education, **health**), public enterprises, certain bodies **funded** from public monies, and lower levels of government (e.g. local governments).

**Responsiveness:** the quality of interaction between public administrations and their clients. It includes how far the needs of clients **can** be satisfied within the framework of policy, the comprehensibility and accessibility of administration, the openness of administration to client participation in decision-making, and the availability of redress.

Source of definitions: *Governance in Transition, Public Management **Reforms** in OECD Countries*, OECD, 1995.



*Annex I*

**HRM DEVELOPMENTS (SURVEYRESPONSES)**

Table 1. HRM Developments Reported by OECD Countries, 1987-1992  
 Survey Question: Have any of the following been introduced or significantly revised in the last five years in your public service?

	Comprehensive HRM Strategy	Simplified ("flatter") organisational structures	Staffing reductions or limits to size of the public sector workforce	Decentralisation or devolution of HRM	Reform or restructuring of pay systems	Reform of employment/staffing practices
Australia	Yes	Yes	Yes	Yes	Yes	No
Austria	Yes	No	Yes	Yes	No	Yes
Belgium	No	No	Yes	Yes	No	No
Canada	Yes	Yes	Yes	Yes	No	Yes
Denmark	No	No	No	Yes	No	No
Finland	Yes	Yes	Yes	Yes	Yes	No
France	No	No	Yes	Yes	No	Yes
Germany	No	No	Yes	No	No	No
Greece	Yes	No	Yes	No	No	Yes
Iceland	No	No	Yes	No	No	*
Ireland	No	No	Yes	Yes	No	No
Italy	No	No	Yes	No	No	No
Japan	No	No	Yes	No	No	No
Luxembourg	No	No	Yes	No	No	*
Netherlands	Yes	No	Yes	Yes	Yes	No
New Zealand	No	Yes	Yes	Yes	Yes	Yes
Norway	No	No	Yes	Yes	Yes	No
Portugal	Yes	No	Yes	No	No	Yes
Spain	No	Yes	Yes	Yes	No	No
Sweden	Yes	Yes	Yes	Yes	Yes	No
Switzerland	Yes	No	Yes	Yes	No	No
Turkey	No	No	Yes	No	No	No
United Kingdom	Yes	Yes	Yes	Yes	Yes	Yes
United States	Yes	No	Yes	Yes	Yes	Yes

Survey Question: Have any of the following been introduced or significantly revised in the last five years in your public service?

	Running cost budgets for line agencies & departments	Classification & Job Design Systems	Equal Opportunity Policies	Performance Management Systems	Assessment of Managers' performance on HRM responsibilities	Performance Appraisal Based on Target Setting & Objectives	Formal Job Evaluation Systems
Australia	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Austria	Yes	Yes	Yes	No	No	No	No
Belgium	No	No	Yes	*	No	*	*
Canada	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Denmark	Yes	Yes	Yes	No	Yes	No	No
Finland	Yes	Yes	Yes	Yes	No	Yes	Yes
France	No	Yes	No	No	No	No	No
Germany	No	No	No	*	No	*	*
Greece	No	Yes	Yes	No	No	No	No
Iceland	Yes	*	*	*	*	*	*
Ireland	Yes	Yes	Yes	No	No	Yes	No
Italy	No	No	No	No	No	No	No
Japan	No	No	Yes	No	No	No	No
Luxembourg	No	No	No	*	No	*	*
Netherlands	Yes	Yes	Yes	No	No	No	No
New Zealand	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Norway	No	No	No	No	Yes	No	Yes
Portugal	No	No	No	No	Yes	Yes	No
Spain	No	No	Yes	No	No	Yes	Yes
Sweden	Yes	Yes	No	Yes	No	Yes	No
Switzerland	No	No	Yes	No	No	No	No
Turkey	No	No	No	No	No	No	No
United Kingdom	Yes	Yes	Yes	Yes	Yes	Yes	Yes
United States	No	Yes	No	No	No	Yes	Yes

**Table 1. HRM Developments Reported by OECD Countries - cont'd (3)**  
**Survey Question: Have any of the following been introduced or significantly revised in the last five years in your public service?**

	Significant New Management Development Programmes	More Flexible Working Time Arrangements (e.g., part-time, flex-time, job sharing)
Australia	Yes	Yes
Austria	Yes	Yes
Belgium	No	Yes
Canada	Yes	No
Denmark	No	Yes
Finland	Yes	Yes
France	Yes	No
Germany	*	*
Greece	Yes	No
Iceland	No	*
Ireland	Yes	No
Italy	No	No
Japan	No	No
Luxembourg	No	Yes
Netherlands	Yes	Yes
New Zealand	Yes	Yes
Norway	Yes	No
Portugal	Yes	Yes
Spain	Yes	Yes
Sweden	No	No
Switzerland	Yes	Yes
Turkey	Yes	No
United Kingdom	Yes	Yes
United States	No	No

**Legend:** "\*" indicates that the country did not provide a response.

**Note:** A "No" response indicates only that new HRM programmes or reforms were not acted on during the period 1987 through 1992; this does not reflect programmes that may already have been in place in these areas. The Matrix in Annex 3 provides a comprehensive description of the HRM policies and programmes in each OECD country.

**Sources:** OECD, "Questionnaire on the Assessment of Reforms in Human Resource Management in the Public Service - Perspectives from Central Management Organisations," PUMA/HRM(92)10, Question 36; OECD, "Assessment of Reforms in Human Resource Management," Annex 2, PUMA(94)10; OECD, *Public Management Developments, Update 1994*, Table 1.A. "New public sector management initiatives, OECD countries, 1993".



**Table 2. Line Management Flexibilities Reported by OECD Countries**  
**Survey Question: In general, in the national public service, have managers in line departments and agencies been given increased flexibility over the last 5 years in relation to any of the following human resource management functions?**

	Organisational Design	Classification & Job Design	Control of Staff Numbers	Staffing Practices	EEO Policies	Pay	Performance Management	Training & Development	Union Involvement
Australia	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Austria	Yes	Yes	No	Limited	Yes	No	Limited	No	No
Belgium	*	*	*	*	*	*	*	*	*
Canada	Yes	Yes	Yes	Limited	No	No	Limited	No	Yes
Denmark	*	*	*	*	*	*	*	*	*
Finland	Yes	Yes	Yes	Yes	No	Yes	No	Yes	Yes
France	*	*	*	*	*	*	*	*	*
Germany	*	*	*	*	*	*	*	*	*
Greece	No	No	No	No	No	No	No	Yes	No
Iceland	*	*	*	*	*	*	*	*	*
Ireland	Yes	Yes	Yes	No	No	No	No	Yes	No
Italy	Yes	No	Yes	No	Yes	No	No	No	No
Japan	No	No	No	No	No	No	No	No	No
Luxembourg	*	*	*	*	*	*	*	*	*
Netherlands	No	Yes	Limited	Limited	No	Yes	Limited	No	No
New Zealand	Yes	Yes	Yes	Yes	No	Yes	-	-	-
Norway	Yes	Yes	Yes	Limited	No	Yes	Limited	Yes	No
Portugal	No	No	No	Limited	Yes	Yes	No	Yes	No
Spain	Yes	Yes	Yes	Limited	Yes	No	Limited	Yes	Yes
Sweden	Yes	Yes	Yes	Yes	No	Yes	Limited	Yes	Limited
Switzerland	No	Yes	Yes	No	Yes	No	No	Yes	No
Turkey	No	Yes	No	Limited	No	Yes	Y	No	No
United Kingdom	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
United States	No	Yes	No	No	No	Yes	Yes	No	No



*Annex 2*

**MAIN HUMAN RESOURCE MANAGEMENT REFORMS 1980-1994**

	AUSTRALIA	AUSTRIA	BELGIUM
1980/1			
1982/3	1983 White Paper on Reforming the Australian Public Service.		
1984/5	1984 Public Service Reform Act. Devolution of HRM started. SES established.		
	1985 Access and equity programme.		
1986/7	1986 Staffing process devolved and streamlined.	1986 Contract employment for senior staff.	
	1987 Most HRM operations devolved to departments and agencies. Public Service Board abolished. Public Service Commission established with responsibility for HRM policy. Major restructuring of classification plus multi-skilling.		
1988/9	1988-89 Wage restructuring linked to agreements on efficiency measures.	1988-91 Administrative Management project.	1988 Individual appropriations to ministries for recruitment.
	1989 Strategy announced to accelerate EEO.	1989 EEO programme revised	
1990/1	1990 Joint APS Training Council established.		1990 Master training plans as management tools. Single statute introduced covering civil servants. Action plans to promote equality of opportunity.
	1991 Middle management development programme. SES classification structure broad-banded.	1991 Pilot projects on personnel development and personnel efficiency.	
	1991-92 Performance appraisal for SES and Senior Officer Grades.		1990-91 In-depth study of personnel requirements.

	AUSTRALIA	AUSTRIA	BELGIUM
1992/3	1992 Workplace bargaining. Performance pay for SES and Senior Officer grades. Framework for integrated HRM.	1992 Human resource development concept launched in several agencies. Job exchange established to promote mobility.	
1994	1993 Strategic EEO plan for 1990s.	1993 Federal Equality of Treatment Act.	
	CANADA	DENMARK	FINLAND
1980/1	1981 Management Category created.		
1982/3		1983 Public Sector modernisation plan launched. First phase 1983-1985. Controls on numbers of posts in each ministry relaxed.	
1984/5	1985 Reduction in public service personnel.		
1986/7	1986 Increased Ministerial Authority and Accountability (IMAA).	1986/87 Second phase of modernisation programme. Scheme for compulsory rotation of professional staff.	1987 Administrative development agency established.
1988/9	1988 Canadian Centre for Management Development established.	1987 Management training programmes. Equality of opportunity action plan.	
	1989 Public Service Reform initiative launched (PS2000). Special Operating Agencies created.	1988 Running cost budgets for departments and agencies.	1988 Training programmes and consultancy projects established.
		1988-89 Third phase of modernisation programme. Emphasis on reducing public service personnel and further decentralisation.	Reform of pay system including experiments of pay by results.
		1989-90 Flexible working arrangements. Flexible pay system.	1989 Flexible working arrangements. Committee to reclassify grades. Reduction in number of personnel. Delegation of decision-making to agencies on establishment and abolition of posts.

	CANADA	DENMARK	FINLAND
1990/1	<p>1990 Management Trainee Programme introduced. Human Resource Development Council established.</p> <p>1991 Measures to streamline public service structures and classification levels. EEO programme. Wage freeze 1991/92. Performance-related pay for senior executives suspended.</p>	<p>1990 Government management policy for the 1990s, including: Performance-related pay for managers; management development; selection of managers; evaluation of managers; equal opportunity measures.</p> <p>1991 New agreement on personnel mobility in "free agency" experiments. Further development of flexible pay system.</p>	<p>1990 Results-oriented running cost budgets. Personnel Committee proposes reforms of personnel policy 1991-95. EEO plans for agencies. Personnel reduction measures.</p> <p>1991 Decentralisation project launched. Taskforce on reform of legal status of public servants, to develop a uniform employment category and collective bargaining system. Performance management and management training programme introduced. Reform of pensions system proposed. <b>Plan to reduce number of posts in state administration by a further 5 per cent 1992-1995.</b></p>
1992/3	<p>1992 Public service pension reform Public Service Reform Act. Reduction in Public Service personnel.</p> <p>1993 Operating budgets for departments, including personnel costs.</p>	<p>1992 Performance evaluation for managers based on results.</p>	<p>1992 Special personnel training project. Flexible working time. Reform of pay system 1992-95. State Employers' salary and wage policy programme.</p>
1994			<p>1994 Reform of collective bargaining.</p>

	FRANCE	GERMANY	GREECE
1980/1	<p>1982 Extension of the scope of union participatory bodies to cover working conditions, career management and structure of the hierarchy.</p>		

	FRANCE	GERMANY	GREECE
1982/3	<p>1982 Measures to develop part-time work and progressive phase-out of work over time leading up to retirement.</p> <p>1983 New general statute establishing the principles of civil service unity, equality of access and independence, as well as the career and mobility system and the right to continuous training.</p>	<p>1983-86 Flexible working time measures, especially part-time work.</p>	
1984/5	<p>1984 Changing relationship between the State and public services (e.g. transportation, electricity), to be established through negotiated performance contracts and performance indicators.</p> <p>1985 Decree organising and co-ordinating continuous training initiatives.</p>		
1986/7	<p>1987-88 Development of staff and service initiative with regard to quality and innovation (quality circles, participatory management, HRM training).</p>		<p>1987 EEO policy.</p>
1988/9	<p>1988 Decrees to widen promotion possibilities</p> <p>1989 Programme on public service modernisation launched, including more dynamic personnel management.</p> <p>Framework agreement with unions on continued training.</p> <p>Launching of an HRM modernisation programme through agency projects and centres of responsibility.</p>	<p>1989 Further development of flexible working arrangements. Law to change working conditions of civil servants and judges.</p>	<p>1989 Embargo on civil service recruitment.</p>

	FRANCE	GERMANY	GREECE
1990/1	<p><b>1990</b> Agreement with unions on reforms of pay scales and qualifications, to be implemented over seven years.</p> <p><b>1991</b> Deconcentration of inter-ministerial training appropriations to regional prefects; deconcentration of some recruitment operations.</p>	<p><b>1990</b> Major in-service training programme for new <i>Länder</i>.</p>	<p><b>1990</b> Public sector personnel reduction plan <b>1990-92</b>. Participation in training programmes compulsory for career development.</p> <p><b>1991</b> <b>Law on Modernisation of the Organisation and Functioning of the Public Administration and the Upgrading of Public Personnel.</b> Recruitment suspended as part of drive to reduce public expenditure. New system of recruitment based on national competition.</p>
1992/3	<p><b>1992</b> Law establishing devolution as a common law principle, in particular for HRM; the role of central administration is limited to design, co-ordination, orientation, evaluation and control. This is coupled with increased co-ordination of decentralised services by the local government representatives and the development of participatory management, management control and contractualisation between decentralised services and the central administration (agency project and centres of accountability).</p> <p>Renewal of framework agreement on continued training</p> <p><b>1993</b> Multi-year ministerial reorganisation and deconcentration plans for each ministry, including objectives as well as the structures and means needed to achieve them (staff, including high-level staff, financial resources, information, evaluation and control mechanisms).</p> <p>Salary agreement including measures for introducing part-time work, progressive retirement and improving recruitment forecasting and planning.</p>		<p><b>1992</b> <b>New promotion system.</b> Performance appraisal introduced. New administrative hierarchy established. Pay freeze.</p>



	FRANCE	GERMANY	GREECE
1994	1994-95 New more user-oriented approaches to organising services, particularly reception services.		1994 New system of recruitment for the public sector.  New administrative hierarchy.  A new programme for Greek Public Administration (called the "Klithenis" programme) was approved within the Second Community Support Framework.
	IRELAND	ITALY	JAPAN
198011		1980 Previous promotion and performance appraisals systems abolished.	
198213		1983 Department of Public Service established to co-ordinate management of human resources.	
198415	1984 Top Level Appointments Committee established to ensure merit-based competition for senior management posts.  Chief executives placed on 7-year employment contracts.  1985 White paper "Serving the Country Better".	1984 Competitive examinations for promotion to managerial career group.	1984 Management and Co-ordination Agency set up.  1985 New retirement age introduced.
198617	1986 EEO policy and guidelines.  1987 Programme to relocate civil servants to regional centres. Embargo on recruitment and programme of early retirement.		1986 Seventh staff reduction plan. EEO Law.
198819	1989 Embargo on recruitment continued.	1988 New law on staff mobility.  1989 Finance Act includes freeze on recruitment. Project to better identify staff needs launched.	1988-89 Reduction in working hours.

	IRELAND	ITALY	JAPAN
1990/1	<p>1990 Performance-related pay for Assistant Secretary grade. Resumption of recruitment on a limited scale to fill essential posts.</p> <p>1991 Flexible working arrangements. Staff reduction announced. 3-year administrative budgets for departments.</p> <p>1991/93 Programme for Economic and Social Progress.</p>	<p>1990 Project on "Functionality and Efficiency of the Public Administration" launched. New regulations governing right to strike in essential public services.</p> <p>1991 Law on EEO.</p>	<p>1991 Eighth personnel reduction plan.</p>
1992/3	<p>1992 Training Initiatives Fund, introduced as vehicle for a more widespread promotion of training, needs analyses and innovative training measures.</p> <p>1993 Master of Science degree established to give senior managers training in strategic management.</p>	<p>1992 Reform of public service employment law; introduction of reforms aimed at controlling personnel expenditures. Freeze on new staff contracts, pay increases and recruitment.</p> <p>1993 Ordinance on rationalisation of public service departments and revision of employment regulations. Creation of agency for trade union relations of public administration.</p>	<p>1992 Five day working week system enforced. Child-care leave introduced. Special revision of compensation for employees working at headquarters of ministries and agencies.</p>
1994	<p>1994 Programme for Competitiveness and Work agreed between government and social partners. Second 3-year cycle of administrative budgets agreed. Strategic management initiative launched</p>		

	LUXEMBOURG	NETHERLANDS	NEW ZEALAND
1980/1			
1982/3	<p>1983 Administrative Training Institute created.</p>		
1984/5		<p>1984 Decentralisation of public personnel policy.</p>	<p>1984/92 Reduction in personnel numbers.</p>

	LUXEMBOURG	NETHERLANDS	NEW ZEALAND
1986/7	1986 Law on automatic promotion as a result of long service.	1987 EEO policy.	1987/188 Performance appraisal based on target-setting; performance management system; contract employment for chief executives and senior managers; formal job evaluation systems; corporate planning.
1988/19		1988/89 Flexible salary system, including performance pay and market-related allowances.  1988/90 Reduction in personnel numbers.  1988 Management training programme.  1989 Protocol requiring agreement with unions on pay and employment conditions in place of former system of unilateral determination by employer. School of Public Administration founded for management training. Management Development Advice Centre established.	1988 State Sector Act devolves responsibility for most human resource management functions to chief executives of departments. Performance pay introduced.  1989 State Services Commission restructured to focus on monitoring and developing government policy service-wide rather than detailed implementation of personnel policy. Decentralisation of collective bargaining begun. Public Finance Act clarifies responsibility of chief executives for outputs of their departments, and provides flexibility for input of resources, including staffing.
1990/1	1990 Wage agreement between government and largest public service union, including modification of salary scales and bonuses.	1991 Introduction of the concept of labour productivity in the public sector. Senior civil servant mobility scheme. Large and small scale efficiency operations launched. Further normalisation of status of government employees in line with private sector practices.	1990 Public Service Code of Conduct issued.  1991 Employment Contracts Act creates new legal and institutional framework for industrial relations in public and private sectors. Major review of state sector reforms since 1987.

	LUXEMBOURG	NETHERLANDS	NEW ZEALAND
1992/3	1992 Staff replacement pool created. Training courses revised. Re-entry programme for women.	1993 Decentralisation of pay negotiations to eight sectors.  1993/94 Reassessment of rules governing personnel management - "Towards more results-oriented management".	1992 Bargaining authority delegated to chief executives of departments. Bargaining authority devolved to chief executives of tertiary education institutions. Management development framework.
1994		1994 Running cost budgets for ministries and agencies.	
1980/1			
1982/3		1983 Performance appraisal introduced.	
1984/5			1984 Law on Reform of Public Sector establishes basic jurisdictions and regulatory framework of every level of government for HRM.
1986/7	1986 Policy of upward mobility – positions of advisor and project manager created.  1987 Programme of Public Management Improvement.	1986 Secretariat for Administrative Modernisation set up.	1986 Job evaluation systems introduced.  1987 Law regulating union representation and negotiation conditions.
1988/9	1988 Women into Management project. Committee on proposal for new salary system.	1988 Flexible working arrangements and EEO principle established. New recruitment and promotion arrangements.  1989 Comprehensive personnel reform programme. Reform of civil service pay system. Revision of statute of civil service senior management positions.	1988 Rationalisation of structure of units and corps. Reform of career structure. EEO programme.  1989 Competitive entrance examinations extended to most civil service posts.
1990/1	1990/93 Programme for Administrative Modernisation.		1990 Expansion of collective bargaining to cover annual pay

	NORWAY	PORTUGAL	SPAIN
	<p>1990 Performance evaluation. Project to develop task flow systems for public administration.</p> <p>1991 Projects on the reorganisation and restructuring of the civil service. New, more flexible civil service pay <del>system</del>, top management removed from basic collective agreement</p>		<p>increases and other matters. Manpower planning - register of posts. Decentralisation of HRM responsibilities to managers. Flexibility in recruitment practices.</p> <p>1991 Management training plan. Pilot performance appraisal systems. Supplementary funds for improved remuneration. Government agreement includes collective bargaining.</p>
1992/13	<p>1992 Increased emphasis on mobility including staff exchange schemes. Performance management introduced. Contract employment for senior staff. Flexible working arrangements. Training schemes.</p> <p>1993 Readjustment and redeployment unit established.</p>	<p>1992 New statute facilitating civil service mobility. Management development programmes.</p>	<p>1992 Agreement with unions on modernisation of the administration and improvement of employment conditions. EEO plan. Development of medium- and long-term human resource planning. Amendment to selection procedures. Freeze on recruitment and remuneration. Flexible working time. New management development programmes.</p>
1994			<p>1993 EEO second plan.</p> <p>1994 Employment plans to promote flexible and rational use of staff, early retirement incentives; phasing-out of tasks; greater use of part-time work.</p>

	SWEDEN	SWITZERLAND	TURKEY
1980/11			
1982/13	<p>1983 Ministry of Public Administration established.</p>		<p>1983 Programme of structural adjustment.</p>
1984/15	<p>1985 Programme for renewal of public sector, including more flexible</p>	<p>1984/87 Project on increasing the efficiency of the Federal</p>	

	SWEDEN	SWITZERLAND	TURKEY
	personnel policies. Experiment in 3-year budget frames for administrative costs. New, individual salary system for senior managers.	Administration aimed at saving 3 per cent of jobs and 5 per cent of working time over 3 years.	
1986/7	1986 Management development for senior managers.	1986 42-hour working week as a result of efficiency project.	1987 Directorate of Administrative Development created. Language achievement pay awards introduced. Number of hierarchical levels in administration halved.
1988/9	1988/89 New instruction to agencies to decentralise. 3-year budget frames introduced.		
	1989 Flexible salary system and grading structure, flexibility in recruitment and mobility of senior executives.	1989 Study on management control launched.	1989 Performance evaluation introduced. In-service training increased.
1990/1	1990 Programme to reduce national administration by 10 per cent over three years.	1990 EBO Policy	1990 Provision for employment of contract personnel in State Economic Enterprises.
	1991 Agreement on employment security as basis for structural reforms. Further decentralisation of HRM. Job classification system introduced as basis for individualised pay.	1991 Introduction of management control throughout federal administration.	In-service training intensified. Job descriptions redefined. Retirement procedures simplified.
1992/3	1992 New pension scheme for civil servants. National Institute for Civil Service Training and Development abolished. Flexible budget frames introduced, providing for increased decentralisation of HRM.	1992/95 Pilot schemes on personnel exchanges and flexible working hours.  1992 Training and development programme, especially for managers. Directive on promotion of women.	1992 Studies on comprehensive public personnel regime. Improvement of public service pensions.

	UNITED KINGDOM	UNITED STATES
1980/1	1981 Civil Service Department disbanded.	
1982/3	1982 Financial Management Initiative as first step in delegating financial and personnel management to line managers.	
1984/5	1984 First programme of action for women.	1984 Performance Management and Recognition System provides for performance pay for middle managers and supervisors.
1986/17	1986 Running cost budgets.  1987 Long-term pay flexibility agreements. Performance-related pay.	
1988/9	1988 Next Steps initiative to promote creation of executive agencies run by chief executives.  1989 21 flexibilities for departments and agencies in fields of personnel management, pay and allowances.  1989/90 Measures to improve training of senior managers. New pay structures and frameworks for determining pay. Measures to develop more flexible framework for recruitment, management development and training.	
1990/1	1990 Programme for Action for ethnic minority employees in the Civil Service.  1991 Treasury issues list of 40 flexibilities for departments and agencies in fields of personnel management, pay and allowances.	1990 Federal Employees Pay Comparability Act. Human Resources Development Group established. Chief Financial Officers Act provides for increased managerial flexibility in using budgets.

	UNITED KINGDOM	UNITED STATES
1992/3	<p>1992</p> <p>New flexible pay agreements negotiated.</p> <p>Civil Service (Management Functions) Act to provide for increased delegation of HRM to line managers.</p> <p>New programme of action for women in the civil service.</p> <p>1993</p> <p>New civil service management code.</p>	<p>1991</p> <p>Compressed and flexible work schedules.</p> <p>1993</p> <p>Personnel reduction plans launched.</p> <p>Performance Management and Recognition System discontinued</p> <p>Vice-President releases major report on "reinventing government" from National Performance Review (NPR) Task Force.</p>
1994	<p>1994</p> <p>New Programme for Action for those with disabilities in the Civil Service.</p> <p>Delegation of pay and grading to agencies, covers 65 per cent of civil service with phase-in to 100 per cent by mid-1996.</p> <p>White Paper proposing new senior civil service cadre, better trained public service, and re-emphasising civil service values.</p>	<p>1994</p> <p>Continued implementation of NPR recommendations.</p> <p>Programme to reduce federal workforce by 12 per cent by 1999.</p>



*Annex 3*

**SUMMARY TABLE ON HUMAN RESOURCE MANAGEMENT REFORMS  
IN THE PUBLIC SERVICE**

	Australia	Austria	Belgium
<b>Decentralisation/ Devolution</b>			
<b>Overall policy</b>	Devolution of most HRM operations to, and within, departments and agencies.	Devolution of human resource management to the line ministries and central co-ordination by the Federal Chancellery.	Policy of decentralisation aimed at making regional and local government and public enterprises more autonomous. No policy on devolution of human resources management for central administration, within the framework of a common platform known as the General Principles.
<b>Personnel costs</b>	Single running cost appropriation for all public service departments and agencies since 1987/88, covering salary and operating costs. Capacity to carry over up to 6 per cent of running costs from one fiscal year to the next, or to borrow from a future fiscal year.	Single running costs for each ministry according to the overall budget; salary payment is centralised to the Ministry of Finance and controlled by the Federal Chancellery and Ministry of Finance.	Controlled by the federal government and, in particular, the Ministry of the Public Service and Budget, within the framework of administrative and budgetary control. This is also the case for the federated entities where local or regional government takes the decisions.
<b>Staff numbers</b>	No central controls on staff numbers since introduction of running cost appropriations, except for Senior Executive Service (SES) positions.	Controlled centrally by Federal Chancellery.	At the federal level, decisions on recruitment are taken by the government after an Advisory Commission on selective recruitment has given its opinion; priority is given to mobility over new recruitment. The governments of the federated entities have full autonomy for their own staff numbers.
<b>Classification/grading</b>	Central control by Department of Finance over SES classifications. No detailed controls for positions below SES, although common core of Service-wide classifications plus work standard and classification profile guidelines. Within this framework managers are able to create, abolish and reclassify positions.	Controlled centrally by Federal Chancellery but managers in departments and agencies given some flexibility since 1991.	Centrally controlled by the Federal Ministry of the Public Service for the federal government and by the departments of regional and local public services for their personnel.

	Australia	Austria	Belgium
Recruitment/termination	Responsibility for non-SES level recruitment devolved to departments and agencies in 1987, within framework of the Public Service Act and instructions and guidelines set by the Public Service Commission. Department of Employment, Education and Training is responsible for operational aspects of base grade recruitment. Policy and procedures for termination of staff set by legislation and collective bargaining awards.	Responsibility shared between Federal Chancellery and personnel units of departments and agencies.	Centralised under the Permanent Secretariat for Recruitment. Government authorisation required after the recruitment commission for the federal government has given its opinion. Governments of the federated entities responsible for their own public services.
Pay/industrial relations	Department of Industrial Relations directly responsible for pay policy and pay rates and for overall industrial relations policy. As of 1992, departments and agencies may conduct own workplace bargaining and conclude separate pay agreements, within centrally determined framework. Service-wide pay and classification structures maintained.	Controlled centrally by Federal Chancellery and Ministry of Finance. However, collective bargaining at both centralised Federal level and level of individual ministry.	Revisions or general adjustments made by the Ministry of Public Service for the federal government. Sectoral bargaining at the community and regional levels on plans presented by the Ministers responsible for the regional and local public services. Bargaining carried out within the framework of the General Principles, which are common to the different public services and which set out the minimum and maximum pay norms, exclusively national. The Statute on unions that organises industrial relations in the public sector remains exclusively national.
Increased Flexibility			
Classification/grading	Major reform of classification structure 1987-88 in context of collective agreement on improving structural efficiency. Number of classifications greatly reduced; more broadly defined classifications and multi-skilling requirement mean greater flexibility. SES classification structure broad-banded 1991 with	The intention is to give more flexibility at line management level, but details are unavailable.	Simplification through drastic reduction in the number of grades and the creation of careers based on a hierarchy and a scale within the same grade.

	Australia	Austria	Belgium
Classification/grading (cont'd)	reduction from six to three levels.		
Deployment/mobility	Simplification of classification structure allows greater flexibility for lateral as well as upward mobility, and gives managers greater flexibility to redeploy staff within and between career streams. Central redeployment unit set up. Schemes of staff rotation, exchanges and secondments within and outside the public service.	Job exchange created in the Federal Chancellery 1992 to promote mobility.	Reforms aimed at promoting free movement of civil servants between departments and/or organisations of public interest. Units in charge of mobility management in the Ministry of the Public Service.
Recruitment/selection/ termination	Devolution of recruitment to departments and agencies gives increased flexibility. Managers have variety of options in filling non-SES vacancies above base grades, including internal or external recruitment and transfer. Redeployment and voluntary redundancy provisions streamlined 1987.	Departments and agencies have flexibility in promotion to junior management positions.	Recruitment centralised under the Permanent Secretariat for recruitment, each government being autonomous in this area. Possibility to hire experts from outside, through a special contract, for a limited period or for a specific activity.
Terms of employment/ working arrangements	Managers have flexibility to decide whether a vacancy should be filled on an ongoing (permanent) basis or for a specific period and whether it is full or part time. Overall quota of 6 per cent on permanent part-time work across the public service. Flexible working hours available since 1988.	Contract employment available for senior staff since 1986. Flexible working hours and part-time work introduced.	In 1990, adoption of a unique status for civil servants, including only 2 categories of staff: statutory and contractual. Extensive possibilities and encouragement for part-time work in the framework of redistribution of work.
Pay	More flexible classification structures provide for greater pay flexibility. Pay increases linked to structural efficiency improvements since 1987. Provision for agency-level productivity increases in context of workplace bargaining. Performance pay for SES and Senior Officer grades from 1992.	A Civil Service performance-related pay scheme including elements of management by objectives is currently under discussion.	Plans to link pay to evaluation and training, as well as to no longer necessarily link pay raises to hierarchical promotion.

	Australia	Austria	Belgium
<b>Performance Management</b>	Performance appraisal for SES and Senior Officer grades since 1991/92, based on performance contracts and linked to corporate goals. Performance-related pay for SES and Senior Officer grades since 1992. Streamlined provisions for managing inefficiency since 1992, with provision for removal or reduction in classification.	Staff interviews, annually with immediate supervisor, including elements of management by objectives: used as a management tool to encourage performance-orientation and staff motivation (see above reference to plans for performance-related pay).	Evaluation of individual performance being developed within the framework of reform of evaluation of all staff, regardless of their hierarchical rank.
<b>Cutting Costs</b>	Reduction of 30 per cent in public service appointments between 1980/81 and 1990/91 but there has been an overall increase of 7.5 per cent in APS size over the same period. Annual reduction in running cost budgets of departments and agencies ("efficiency dividend") of 1.25 per cent per annum.	Plan to reduce the number of public employees by 2 per cent over 1990-1995.	Plan to significantly reduce the number of managers (by at least 1 per cent) as a general norm, but specific application carried out on an administration-by-administration basis.
<b>Human Resource Development</b>	1987/88 workplace reforms included programme of multi-skilling. 1991 Middle Management Development Programme at agency level and ongoing assistance from Public Service Commission to agencies to develop plans for human resource development. Service-wide courses for SES and middle managers. Identification of Service-wide core competencies for each major employment stream through joint management-union training council as part of government's National Training Reform Agenda. Competencies will form basis for assessment of development needs and evaluation of training and development programmes.	1989 administrative management project aimed at human resource development, 1991 study group recommended range of Training and Development Programmes.	Interdepartmental Training Programme financed by specific budget allocations to favour staff training, at the request of the department concerned.

	Australia	Austria	Belgium
Equal Employment Opportunities	1989 "Further Steps Forward" strategy on EEO. Agencies required to develop EEO plans. 1993 Public Service Commission issues strategic plan for EEO in the 1990s.	Programme for the advancement of women, 1981; EEO programme revised 1989. Federal Equality of Treatment Act, 1993.	Royal order of 27.2.1990 defining affirmative action plans to promote equal opportunity, department by department.

	Canada	Denmark	Finland
Decentralisation/Devolution			
Overall policy	Reduction and simplification of central controls to give departments and agencies greater managerial freedom, and encouragement of delegation to line management within departments and agencies	Decentralisation to and within departments and agencies.	Decentralisation to line ministries and agencies and devolution to line management, within a central policy framework.
Personnel costs	Departments and agencies given operating budgets 1993, merging salary, operating and minor capital costs. Carry-over of 2 per cent of budget from one fiscal year to next allowed. Creation of Special Operating Agencies in several departments since 1989 with devolved authority over salaries and operating budgets.	1983-85 relaxed control on expenditure. Running cost budget for departments and agencies since 1988, including salaries; however, Ministry of Finance imposes limit on total expenditure on pay.	Results-oriented running cost budget structure introduced 1990, includes salaries and other personnel costs.
Staff numbers	Central person-year controls abolished in 1993 with introduction of operating budgets.	No central control except for a number of senior officials.	Overall control by State Employer's Office in Ministry of Finance. Responsibility devolved to agencies under general guidelines from ministries to which they are attached. However, staff reduction plan to 1996 entails centralised control of overall staff numbers in the public service; line ministries responsible for control of numbers in agencies that are under their supervision.

	Canada	Denmark	Finland
Classification/grading	Treasury Board Secretariat promulgates classification standards. Treasury Board delegates classification authority to deputy heads of departments up to the <b>ADM</b> level. It also monitors classification decisions.	Ministry of Finance responsible for senior official classifications; departments and agencies responsible for other classifications.	Senior level classification controlled centrally by <b>State Employer's Office</b> ; line ministries responsible for classification of employees with civil servant status; agencies responsible for classification of other staff.
Recruitment/termination	Public Service Commission responsible for recruitment, with the exception of departments which have delegated authority for external recruitment of certain occupational groups. Recommendations by departments/agencies for termination of <b>staff</b> have to be sent to Treasury Board. 1992 Public Service Reform Act gave departments/agencies more delegated freedom to recruit for short-term requirements.	Responsibility of departments and agencies.	Recruitment and termination decentralised to line ministries and agencies except for senior positions.
Pay/industrial relations	Central control by Treasury Board which acts for employer side in centralised collective bargaining, but senior staff relations personnel and line managers from major departments involved in collective bargaining. Treasury Board sets pay and terms for management level employees.	Pay is set centrally but part (0.8 per cent) of the general pay budget is decentralised to departments for flexible pay measures.	Pay negotiated centrally; however, 1992 law provides for decentralisation of pay negotiations to individual employers in ministries and agencies which have developed systems of management by results. 1994 reform of collective bargaining <b>aims</b> to reinforce the system of agreements at agency level. Pay of top civil servants set by State Employer's Office.
Increased Flexibility			
Classification/grading	Public Service Reform Act 1992 provides for simplification of job evaluation and classification system. Single new general services occupational group covering 100 000 public servants being developed to replace multiplicity of groups.	Decentralised portion of pay budget provides departments and agencies with some flexibility to reclassify.	More flexibility in pay arrangements and pay determination e.g. from pay scales to graduated pay expressed in cash and <b>based</b> on the demands of the job. Principles are adapted to each state employer's own functions.

	Canada	Denmark	Finland
Deployment/mobility	Reform of classification system intended to promote mobility. Public Service Reform Act 1992 transferred responsibility for deployment of staff from Public Service Commission to departments.	Scheme for compulsory rotation of professional staff since 1986/87.	Job assignments and placement of personnel unproved. Voluntary mobility encouraged in interest of good labour policy and low costs. Greater flexibility in job category status enables freer mobility between departments/agencies and <del>ministries</del>
Recruitment/selection/termination	More flexibility of departments and agencies level as a result of Public Service 2000 reforms.		Greater decentralisation (see above).
Terms of employment/working arrangements	Part-time employment, job sharing, flexible working hours, variable work week, telework.	Flexible working time for employees with family responsibilities 1989; career-breaks for child care.	More flexible employment status for civil servants being developed since 1993, including increased use of contract employment. Flexible working hours 1992. Part-time work and job sharing since 1989.
Pay	Simplification of classification system under way (see above). Amendments to pension plan to allow part-time workers to contribute.	Decentralised portions of pay budget (see above) can be used for flexible pay system, pensions, reclassifications.	Personal pay agreements for senior officials and experts. Pay system reforms 1992-95 to introduce more flexibility at agency level with guidance from State Employer's Office.
Performance Management	Performance appraisal system based partly on target setting and objectives. System for non-managerial staff revised 1990. Appraisal practices for heads of departments and other managers currently under review. Performance-related pay for senior executives suspended since 1991 due to general wage restraint measures. Total Quality Management introduced in some agencies.	Departments and agencies recommended to undertake performance assessment of senior staff based on objectives and results, 1992. Two performance-related pay schemes introduced in 1989, one for all public servants and the other for senior managers. Establishment of a number of "free-agencies" from 1992, based on performance contracts and results-oriented management.	Performance management introduced 1991. Greater emphasis on management by results since 1992. Performance-based and results-oriented pay being introduced.
Cutting costs	15 000 person-year staff cut 1985-1990 10 per cent cut in executives 1991. 10 per cent reduction in	1989 Review of Public Sector puts increasing emphasis on reducing personnel and further	1989 government decision to reduce the number of posts by 1.3 per cent by end of 1991.



	Canada	Denmark	Finland
<b>Cutting Costs (cont'd)</b>	personnel from 1992, 46 agencies eliminated, consolidated, deferred or privatised. Operating budgets reduced by 2 per cent in 1992, 3 per cent in 1993 for all departments. Pay reductions for executives 1991. Public service salaries frozen for two years 1991/92, restricted for years 1993/94.	decentralisation. Move to flatter organisation structures under modernisation programme since 1983-85. Productivity targets set to increase 2-3 per cent per annum.	1990 government decision not to fill 10 per cent of the vacancies available in 1991. The government set target to reduce the number of state personnel by 6.8 per cent from 1992-1994. Control of personnel numbers up to 1996.
<b>Human Resource Development</b>	Canadian Centre for Management Development established 1988. Improved career planning, especially for women since 1991. Management Trainee Programme 1990.	Training and development seen as key element of modernisation programme. One-third of managers have participated in management training since 1987-1992.	Projects set up in 1992-94 to develop management, staff training and working communities. Training Programmes organised for senior managers and top experts since 1991. EU integration training organised and subsidised by Ministry of Finance.
<b>Equal Employment Opportunities</b>	EEO programme in recruitment, promotions training and development launched 1991 in context of Public Service 2000 reforms.	Equality of Opportunity action plan adopted 1987.	Ministry of Finance instructed ministries and agencies to draw up EEO plans 1990.

	France	Germany	Greece
<b>Decentralisation/ Devolution</b>			
<b>Overall policy</b>	Centralised control but some relaxation if government administrations meet certain objectives. Since 1992, policy of devolution of resource management from central government administrations to decentralised government services.	No policy of managerial decentralisation/ devolution. However, the decentralised nature of government organisation means that some HRM procedures are nevertheless decentralised.	
<b>Personnel costs</b>	No devolution. Controlled centrally by Ministry of Economy, Finance and the Budget.	No devolution, centrally controlled by Ministry of Finance.	No devolution, centrally controlled by Ministry of Finance.
<b>Staff numbers</b>	Centrally controlled by each administration under the control of the Ministry of the Public Service and	Centrally controlled by Ministry of the Interior.	Centrally controlled by the Ministry of the Presidency of Government.

	France	Germany	Greece
Staff numbers (cont'd)	the Ministry of Finance and the Budget.		
Classification/grading	Centrally controlled by the Ministry of the Public Service and the Ministry of Finance and the Budget.	Centrally controlled by Ministry of the Interior.	Centrally controlled by the Ministry of the Presidency of Government.
Recruitment/termination	Some devolution of recruitment operations within framework of national public service statute. All civil servants are recruited by entrance examination.	Service-wide recruitment issues are responsibility of Federal Personnel Committee. Operational aspects of recruitment decentralised to departments.	Base grade recruitment handled centrally by Ministry of the Presidency of Government. Since 1994, recruitment is managed by the Public Sector Commission for Personnel Recruitment.
Pay/industrial relations	Pay set centrally; Ministry of the Public Service conducts negotiations for the State, local governments and hospitals.	Centrally determined. Pay of civil servants ( <i>Beamte</i> ) set by law; collective bargaining for contractual employees and blue-collar groups with Ministry of the Interior acting for employer side.	Pay of civil servants set centrally by law. Centralised collective bargaining for other public service employees with employer side represented by Ministry of Finance or body authorised by the Minister.
Increased Flexibility			
Classification/grading	In 1990, reform of all classification and pay structures, in order to take into account changing staff qualifications and job content; this reform will be implemented in seven annual stages, from 1990 to 1997.		Civil service posts classified into four categories, according to level of education. The remuneration system was introduced in 1984, whereas the classification system was first reformed in 1992, and revised again in 1994.
Deployment/mobility	Since 1991, in the framework of a governmental programme for the geographic redeployment of public administrations from Paris to the provinces, a financial and social incentive is offered to public employees who accept this geographic mobility. In addition, dialogue has been opened with the public service unions to develop geographic and functional mobility.	Large-scale secondments of civil servants from Western to Eastern Länder for a limited time. Incentives provided to accept secondment.	Programme since 1990 to achieve a more rational distribution of personnel by transfers and secondments of surplus staff.

	France	Germany	Greece
Recruitment/selection/termination			New system of public service recruitment on the basis of a national annual competition since 1992.
Terms of employment/working arrangements	Non-pay conditions of employment included in negotiations with unions since 1989. The 1994-95 salary agreement includes a set of measures aimed at encouraging employment in the public service by providing for more rapid recruitment processes and by developing part-time work and possibilities for flexible working time (progressive stoppage of work).	Working time flexibility especially for part-time jobs since 1983-86. Age-related part-time working option to stagger retirement. New arrangements for civil servants and judges since 1989 which extends application period for part-time work and unpaid leave for market-related reasons.	
Pay	The 1990 agreement on pay structure reform provides for additional pay index points for designated employees occupying posts involving particular responsibility or technical qualifications.		
Performance Management	No generalised system but individual ministries may establish own performance measurement systems. In addition, performance is rewarded by productivity bonuses for administrators, the amount varying among ministries and corps.		Performance appraisal system introduced 1992.
Cutting costs	In the framework of the economic restructuring plan carried out since 1983, the government is committed to controlling the numbers of public service staff and to imposing pay restraint. The general level of salaries is fixed according to government estimates of the rise in prices, and the purchasing power of public servants is guaranteed on average.		Embargo on recruitment from 1989. Recruitment suspended 1991 in drive to decrease public expenditure; practice of giving permanent status to temporary staff abandoned; personnel recruited for fixed hours (paid by the hour) must cease work at the expiration of contract. Pay freeze 1992 but a flat rate increase for all.

	France	Germany	Greece
Human Resource Development	In 1989, agreement with public service unions on continuous training, including <del>minimum</del> number of days training per year. Since 1992, provisions for training and requalification in situations of restructuring. From 1992, 3.5 per cent of the pay bill earmarked for continuous training and equivalent percentage for initial training.	Large-scale training effort for staff in Eastern Länder.	1990 programme on <del>training</del> , re-education, specialisation obligatory for <del>career</del> development.
Equal Employment Opportunities	In 1984, 1987 and 1995, measures for recruiting and integrating handicapped persons. From 1984 to 1994, various measures for recruiting women.		EEO policy 1987.

	Iceland	Ireland	Italy
Decentralisation/Devolution			
Overall policy		Increased decentralisation to departments and devolution within departments to line management.	
Personnel costs	Decentralised budgetary system based on "budget caps" in each Ministry; appropriations are single line items in budget for most agencies who are free to distribute funds for programmes.	New system of budgetary allocations 1989 covering administrative costs, including salaries. System of three-year delegated administrative budgets from 1991 including personnel costs.	No devolution, centrally controlled by Ministry of the Treasury.
Staff numbers		Control over staff numbers up to middle management level, delegated to departments; monitored by Central Staff Information System.	Controlled centrally by the Ministry of the Public Service.
Classification/grading		Responsibility up to middle management level delegated to departments; Central Staff Information System monitors departments' use of flexibility with delegated budgets.	Controlled centrally by the Ministry of the Public Service

	Iceland	Ireland	Italy
Recruitment/termination		Centrally controlled by Ministry of Finance.	Responsibility decentralised to departments and agencies.
Pay/industrial relations		Pay set centrally; Department of Finance represents employer side in pay bargaining.	Pay setting in the public sector centralised, on the basis of eight sub-sectors. Since 1994, Bargaining Agency responsible for collective bargaining for employers side according to guidelines laid down by the Ministry of the Public Service.
Increased Flexibility			
Classification/grading		More flexible grading system currently under discussion.	
Deployment/mobility		Redeployment is offered if there is a surplus of staff to operational requirements.	1988 law on public service linked to the Finance Act provides for staff mobility to improve efficiency.
Recruitment/selection/termination		Civil Service Commission, an independent statutory body, controls entry to the civil service; termination is a matter for government decision, except in the case of staff on probation, where an appointment may be terminated by an individual Minister.	Promotion to "managerial career group" by competitive examination 1984.
Terms of employment/working arrangements		Career breaks (unpaid leave), and job sharing since 1984.	
Pay		Merit pay system introduced in 1990 for Assistant Secretaries of departments.	
Performance Management		Performance pay for Assistant Secretaries of departments 1990.	
Cutting Costs		Total numbers employed frozen at 1993 levels.	1992 all employee contracts "frozen" for 1993. Salary increases not applied for 1993.

	Iceland	Ireland	Italy
Human Resource Development	Training courses for finance officers launched in 1992.	Customer-oriented training programme introduced 1991. Management development programmes initiated 1991.	
Equal Employment opportunities		EEO policy and guidelines for the civil service 1986 provides for annual report on implementation.	

	Japan	Luxembourg	Netherlands
Decentralisation/ Devolution			
Overall policy	No policy to decentralise or devolve responsibility for human resource management to departments and agencies.		Decentralisation of human resource management to departments and agencies and devolution to line management.
Personnel costs	Centrally controlled by Ministry of Finance.	Centrally controlled by Ministry of the Public Service.	Centralised control up to now but system of decentralised running cost budgets covering personnel costs and other administrative expenses being developed from 1994, based on 0.7 per cent efficiency increase.
Staff numbers	Centrally controlled by Management and Co-ordination Agency (MCA).	Centrally controlled by Ministry of the Public Service.	Departments and agencies have some freedom within limits.
Classification/grading	Centrally controlled by MCA and National Personnel Authority (NPA).	Centrally controlled by Ministry of the Public Service.	Centrally controlled by Ministry of Home Affairs, but some freedom for departments and agencies to regrade staff.
Recruitment/termination	Individual recruitments and terminations decentralised to each ministry and agency according to the guidelines set by NPA.	Centrally controlled by Ministry of the Public Service.	Recruitment decentralised to departments and agencies except for senior management positions. Operational aspects of termination handled by departments and agencies, but within a legislative framework.
Pay/industrial relations	Pay of public servants set centrally by law with due regard to the pay recommendation by NPA.		Pay determination in public sector decentralised to eight sub-sectors 1993. Pay negotiations for central administration conducted

	Japan	Luxembourg	Netherlands
Pay/industrial relations			centrally with Ministry of Home Affairs representing employer side.
Increased Flexibility			
Classification/grading			
Deployment/mobility	Staff exchange programmes between ministries and agencies. Programmes to send officials to private enterprises to study private sector management. Relocation of some government offices out of Tokyo.	Creation of a pool of replacements for temporarily absent staff, 1992.	Efforts to stimulate mobility among ministries and institutions and services linked to them. Mobility scheme for senior civil servants since 1991.
Recruitment/selection/termination		1986 legislation on automatic promotion after a number of years in the public service.	Recruitment and selection highly <b>decentralised</b> ; efforts to develop more co-ordinated system for selection of senior staff.
Terms of employment/working arrangements	Reduction of working hours 1988. Implementation of five-day <b>week</b> and encouragement to take up paid holiday leave 1992. Child care leave for all public servants for children under one year 1992.	Part-time employment.	<b>Process</b> of "normalisation" of conditions of employment and labour relations currently underway to bring them more into line with private sector practices. More flexible use of labour in recent years through flexible working time, fixed-term contracts, casual employment. Provision for part-time work (ranging <b>from</b> 1-37 hours per <b>week</b> ).
Pay		Ceiling on bonuses for extra working duties removed 1992.	Decentralisation of pay negotiations (1993, see above) intended to provide for greater <b>flexibility</b> . Market-oriented pay to deal with recruitment and retention problems since 1987. Performance pay (see below).
Performance Management	Diligence allowance paid twice yearly for performance.		Departments and agencies use performance appraisal at their discretion, usually in the form of performance interviews, but not compulsory. Provision of formal assessment to support decisions on tenure, promotion,

	Japan	Luxembourg	Netherlands
Performance Management (cont'd)			dismissal. Bonus payments for special effort since 1984. Performance-related pay introduced for civil servants 1989; may take form of variable incremental progression, merit allowance, bonus.
Cutting costs	1986 Seventh personnel reduction plan with a target of 5 per cent reduction where possible in each ministry/agency over 5 years from 1987. 1991 Eighth personnel reduction plan sets total personnel reduction at 4.52 per cent by end of fiscal year 1991. 1992 fiscal year decrease of 1 372 positions as a result of the implementation of eighth personnel reduction plan.		Policy of considerably reducing size of civil service. Reorganisation and streamlining programme launched 1986. 1988-90 target set in each ministry for job reductions. 1991 further reorganisation and streamlining programme aimed at defining core functions of ministries, privatisation of services, reduction in personnel expenditure and numbers. Cuts in wage growth.
Human Resource Development	Main emphasis is on-the-job training. Also see above on mobility measures.	Institute for administrative training created 1983, to provide initial and continuous training for civil service. Revised training courses for young civil servants, 1992.	Management development effort launched late 1980s. Most ministries now have systems in operation. Increased emphasis on training since mid-1980s.
Equal Employment Opportunities	EEO principle established by National Public Service Law. Child care leave implemented 1992.	Re-entry programme for women after child care leave, 1992.	EEO policy 1987. Female candidates, handicapped people and members of ethnic minorities given preference in recruitment if qualified.

	New Zealand	Norway	Portugal
Decentralisation/ Devolution			
Overall policy	Departmental chief executives largely autonomous and responsible for management of financial and human resources within framework of budgetary limits, accountability for outputs and legislation.	Increased decentralisation to departments and agencies and devolution to line management within agencies.	No policy to decentralise or devolve responsibility for human resource management.



	New Zealand	Norway	Portugal
Personnel costs	Responsibility for salaries and other personnel costs devolved to departments and agencies within framework of 1989 Public Finance Act. Appropriations based on "outputs". Departments have considerable flexibility in "input" of resources, including salaries and staffing.	Centrally controlled by Ministry of Finance and Ministry of Government Administration (MGA).	Centrally controlled by Ministry of Finance.
Staff numbers	No central control, see above.	Centrally controlled by MGA.	Centrally controlled by Ministry of Finance.
Classification/grading	Responsibility of departments and agencies as employers in their own right; State Services Commission has guidance role.	Centrally controlled by MGA.	Centrally controlled by Ministry of Finance.
Recruitment/termination	Devolved to departments and agencies except for chief executives, who are appointed by Head of the State Services Commission.	Recruitment decentralised to departments and agencies under MGA guidelines.	Recruitment above base grades decentralised to departments and agencies.
Pay/industrial relations	Largely devolved to departments and agencies within framework set by State Sector Act 1988 and Employment Contracts Act 1991. State Services Commission retains an oversight role. Under 1991 Employment Contracts Act, employers/employees can choose individual or collective bargaining.	Pay set by centralised bargaining with MGA representing the employer side. Small amount of wage bill set aside for local bargaining. Pay of top officials set on basis of individual contracts by responsible Ministers since 1991.	
Increased Flexibility			
Classification/grading	Departments and agencies free to decide own systems. Procedures have generally been simplified.		
Deployment/mobility	See next section.	Increased emphasis on mobility since 1992; observation visits, job rotation within central government. Staff exchange schemes between agencies since 1992. Framework agreement for	Rationalisation of employment conditions 1992 to facilitate mobility of civil servants.

	New Zealand	Norway	Portugal
Deployment/mobility (cont'd)		exchanges between managers in government and private enterprises 1992. 1993 Redeployment and Readjustment Unit established in Ministry of Government Administration	
Recruitment/selection/termination	Procedures for recruitment, promotion and termination of staff simplified by 1988 State Sector Act, which also removed restrictions on external entry to public service. Chief Executives of departments and agencies free to set own recruitment and selection procedures subject to SSC guidelines on good employment practices.	1990 increased use of advisors, project managers and fixed-term contracts for top civil servants.	New recruitment and promotions procedures 1988.
Terms of employment/working arrangements	Under the 1991 Employment Contracts Act employees' terms and conditions of employment a matter for negotiation, individually or collectively, with their employer (the Chief Executive of their department or agency) and are contained in a contract of employment. Employees and employers may choose who will represent them, individually, or collectively, in negotiations. Chief Executives and senior executives employed on five-year contracts since 1988. Flexible working arrangements determined at departmental or agency level and may include part-time work, job sharing, flexible working hours.	Contract employment for senior staff 1992. Flexible working hours; job rotation; leave for child care, 1992.	Revision of statute for senior civil management positions 1989. Rationalisation of employment conditions 1992 to enable closer fit between individual skills and organisational needs and enable managerial flexibility. Flexible working arrangements and child care leave, 1988.
Pay	Within range for each post, pay linked to individual. For those on collective employment contracts most salary scales contain provision for ranges of rates although some incremental steps still exist	1991 new civil service pay system give agencies more flexibility to vary pay based on individual performance, results achieved, recruitment and retention needs. Development of more	1989 Civil Service pay system reform to improve client service and staff motivation by improving internal consistency, transparency and external competitiveness.

	New Zealand	Norway	Portugal
Pay (cont'd)	for those at the bottom of the range for lower graded positions. Ranges of pay rates give employers flexibility to determine rules for progression, reward performance and respond to market pressures. Some arrangements for one-off bonus payments to reflect performance, rather than permanent increase in salary levels.	flexible, local pay policies a continuing priority. Top managers removed from general pay system 1991; pay now set by individual agreement and related to performance and private sector rates.	
Performance Management	Development of performance specification and monitoring is a central element in State sector reforms. 1988 State Sector Act and 1989 Public Finance Act created an accountability framework for heads of government departments and agencies (Chief Executives) based on specification of performance expectations, delegation of authority to manage resources, periodic reporting and subsequent review and assessment of performance. Individual performance agreements between ministers and chief executives are a key element in this framework. Chief Executives are responsible for establishing performance management systems in their departments, including performance agreements for staff. Pay of Chief Executives and senior managers partially linked to performance. Performance-related pay also for staff at virtually all levels within departments and agencies.	Development of performance evaluation since 1990. Performance assessment obligatory for managers since 1992. 1991 pay reform provides for performance-related pay for civil servants.	Performance appraisal system introduced 1987.
cutting costs	Public service employee numbers reduced substantially between 1984 and 1992. This was caused partly by efficiencies and	Under-budgeting has meant some vacancies are not being filled.	1989 reform of pay system aimed at cutting state sector pay costs.

	New Zealand	Norway	Portugal
<b>Cutting Costs (cont'd)</b>	partly by creation of State Owned Enterprises and other privatisation measures. State pay rounds set by context of fiscal restraint; most common outcome was no wage increase in return for no change in conditions of employment. No compensation to State employers in 1991/92 for any pay cost increases.		
<b>Human Resource Development</b>	Responsibility of departments and agencies. However, establishment of management development framework across the public service since 1992 with emphasis on defining and developing competencies and qualities required by chief executives and senior managers.	Human resource development programmes in agencies supported by central government training schemes. 1992 plan of training schemes for front line management, middle management and top management based on function and role of individual concerned.	Training programme to raise the skills of public servants since 1992.
<b>Equal Employment Opportunities</b>	1988 State Sector Act requires departments and agencies to promote, develop and monitor EEO policies and practices.	EEO policy and equal pay 1978. 1988 "Women into Management" project.	Principle of EEO established 1988, includes EEO in recruitment methods, flexible working arrangements.

	Spain	Sweden	Switzerland
<b>Decentralisation/ Devolution</b>			
<b>Overall policy</b>	Partial policy to decentralise responsibility for human resource management to departments and agencies, some of which have a high degree of autonomy (Tax Agency, Post Office, etc.)	Progressive decentralisation of all aspects of human resources management to agencies since mid-1980s.	Since 1990/91 policy for staff career development and organisational development and a policy for progressive decentralisation of human resource management to departments and agencies.
<b>Personnel costs</b>	Centrally controlled by Ministry for Public Administration and Ministry for the Economy and Finance. However, some more autonomous agencies (e.g. tax agency) have flexibility in	Three-year budget frames for all administrative expenditures, including salaries, introduced 1991-92 and made more flexible 1993. Departments and agencies can carry forward or borrow up to 5 per cent	Decentralised pay management, centralised final supervision by the Federal Personnel Office (for the general administration) and by state-owned enterprises.

	Spain	Sweden	Switzerland
Personnel costs (cont'd)	managing parliament approved funds.	of next year's appropriations	
Staff numbers	Centrally controlled by Ministry of Public Administration which makes an annual proposal to Government concerning recruitment numbers. Staff numbers of each ministry can vary because of internal mobility among the different ministries, but cannot exceed the establishment plans set by their <i>"Relaciones de Puestos de Trabajo"</i> jointly approved by the Ministries of Public Administration and Economy and Finance.	No central control.	Decentralised management, centralised final supervision by the Federal Personnel Office (for the general administration) and by state-owned enterprises.
Classification/grading	Centrally controlled by Ministry of Public Administration.	Responsibility devolved to individual agencies. Service-wide grading structures abolished 1989.	Decentralised management, centralised final supervision by the Federal Personnel Office (for the general administration) and by state-owned enterprises
Recruitment/termination	Partially decentralised since 1990 in relation to the figures established annually by the government for each corps of civil servants and each category of staff under contract.	Recruitment decentralised to individual agencies except for top managers, who are appointed by government. Termination handled by individual agencies within framework set by collective bargaining.	Recruitment largely decentralised to departments and agencies.
Pay/industrial relations	Largely centralised pay determination for civil servants and other government employees. The determination of some salary supplements, such as a productivity bonus related to performance, is carried out in departments and agencies.	Pay setting decentralised to individual agencies within framework of overall increase in pay budget determined by centralised bargaining. Pay of Director General of agencies and other top officials is set by the government; pay of Deputy Director General of agencies set by ministries to which agencies are attached.	Pay in federal civil service set centrally by law.

	Spain	Sweden	Switzerland
<b>Increased Flexibility</b>			
Classification/grading		Service-wide pay/grading structure abolished 1989. Agencies free to develop own systems; job evaluation system being developed to support this.	
Deployment/mobility	1988 rationalisation of grading structure intended to promote <del>mobility among</del> the different ministries. In 1994 a rationalisation of staff and division into Employment Plans was implemented.		
Recruitment/selection/ <del>termination</del>	Recruitment is carried out through entrance examinations. Major devolution beginning 1990. In 1993 and 1994 <del>almost</del> total freeze on recruitment and pay.	Agencies free to decide own recruitment and selection methods. Greater flexibility in recruiting senior executives. 1990 collective agreement on employment security <b>streamlined</b> termination provisions, facilitating lay-off of surplus staff.	
Terms of employment/ working arrangements	Provision for more flexible working hours 1992. Child care leave 1993.	Contract employment for senior managers since 1988. New arrangements for laying off staff 1990 (see above). 1994 extensive delegation to agencies, in the context of decentralised pay determination system in which agencies have substantial influence.	Contract employment for senior officials 1991. 42-hour week from 1986 as a result of project on increasing efficiency of the federal administration. <b>1991 pilot</b> project on flexible working time arrangements 40-44 hours a week.
Pay	1984 pay reform authorised ministries to grant special allowances based on job evaluation and productivity bonuses. In 1991, conditions for setting pay modified at the time of the Budget Law, giving prominence to collective bargaining. However, <del>the</del> rise in pay for 1993, <del>set by</del> the Parliament, is significantly lower than the rate of inflation. 1994 <b>pay</b> freeze as part of Budget Law.	Agencies free to develop own pay systems. More flexible, individualised, market-oriented system developed since 1989.	Study in progress on reform of pay system.

	Spain	Sweden	Switzerland
<b>Performance Management</b>	<p>Since 1984, pay concepts such as "productivity" linked to performance. Since 1992, systems for evaluating performance (using objectives or job factors or a mixture of both) have been introduced in different departments to facilitate the application of flexible (productivity) pay.</p>	<p>1989-91 introduction of management by objectives systems in agencies. No formal requirement to undertake individual performance appraisal, but encouragement of appraisal through informal discussion between line manager and subordinate at least annually. Considerations in determining individual pay can include performance, but no general system of performance-related pay; some agencies have performance bonus systems.</p>	<p>The existing systems of personal performance evaluation are being revised to introduce elements of performance-related pay as from 1995. Since 1991, annual increases for length of service can be refused for unsatisfactory performance.</p>
<b>Cutting Costs</b>	<p>Freeze on recruitment, partial elimination of posts vacant since 1992-93. In 1993 pay did not keep pace with inflation and in 1994 there was a pay freeze.</p>	<p>1989-91, decrease of 23 per cent in staff of public service corporations. Programme to reduce national administration by 10 per cent over three years announced 1990. As a result of structural changes the number of state employees fell by some 48 000 between September 1992 and September 1993. Stabilisation agreement 1991-92 covering the whole labour market included pay restraint measures for the public sector and temporarily halted trend to decentralise pay because it left little room for pay adjustments at agency level.</p>	<p>Between 1991 and 1996 reduction in staff numbers of approx. 8 per cent. Stricter management of variable costs (e.g. cost of living allowance).</p>
<b>Human Resource Development</b>	<p>1992-96 measures to increase professional qualifications; particular emphasis on management training.</p>	<p>National institute for civil service training and development (SIFU) abolished in 1992; each agency responsible for own training and development. Developing skills and capacities of senior managers is high priority. Programmes established for new managers, along with dialogue groups</p>	<p>Training and development programme 1992, with particular emphasis on development of managers.</p>

	Spain	Sweden	Switzerland
<b>Human Resource Development (cont'd)</b>		between different levels of managers on leadership and management questions.	
<b>Equal Employment Opportunities</b>	First EEO plan initiated 1987/88. Second EEO plan approved 1993.		EEO policy 1991; directive on promotion of women 1992.

	Turkey	United Kingdom	United States
<b>Decentralisation/Devolution</b>			
<b>Overall policy</b>		Delegation of <b>control</b> for <b>human resource management to and within</b> <b>departments and in Civil Service (Management Functions) Act 1992</b> <b>framework for delegation.</b>	Increase flexibility for departments and agencies to manage their personnel.
<b>Personnel costs</b>	Controlled centrally by Ministry of Finance.	<b>costs</b> <b>since 1986, including personnel costs.</b> Also for <b>executive agencies.</b> <b>departments and agencies can carry underspend on running costs appropriations to</b> <b>following year.</b>	Controlled centrally by <b>Office of Management and Budget (OMB).</b>
<b>Staff numbers</b>	Central government controlled by Ministry of Finance. Local government controlled by Ministry of the Interior. State Economic Enterprises controlled by State Personnel Presidency.	No central controls since introduction of running cost budgets.	Staff numbers (of work year equivalents) are controlled centrally by the Office of Management and Budget (OMB). The Office of Personnel Management (OPM) provides employment data to OMB on a <b>monthly</b> basis to facilitate their tracking.
<b>Classification/grading</b>	Controlled by both Ministry of Finance and State Personnel Presidency.	Controlled centrally but departments and agencies may, with Treasury approval, determine their own classifications by delegations under the 1992 Civil Service (Management Functions) Act.	Responsibility devolved to departments and agencies under direction of OPM although OMB has advisory role on general management and budget matters.
<b>Recruitment/termination</b>	Recruitment currently decentralised to departments and agencies but move towards a more centralised system.	Devolved to departments and agencies (subject to minimum recruitment criteria) within a framework of recruitment principles laid down in	Recruitment decentralised to departments and agencies.



	Turkey	United Kingdom	United States
Recruitment/termination (conf'd)		1995. Exceptions are for senior staff.	
Pay/industrial relations	Civil service pay set centrally by law. Decentralised collective bargaining for manual workers.	Increasingly decentralised pay setting. Civil service pay (excluding senior officials) set by collective bargaining. As of 1994, responsibility for pay determination devolved to large executive agencies (covering more than half the Civil Service) within robust public expenditure controls. Delegation initiative continues to be extended. Pay of senior officials set by government on advice of independent review body.	Pay setting is process based and dependent on compensation studies for comparable work outside the government. In general, setting the schedules for blue collar workers is more decentralised on a regional basis, while setting the schedules for white collar workers is a centralised process. The system provides for adjustments (based on pay studies and the recommendations of special councils) to go forward automatically unless the President or Congress decides otherwise. Depending on the nature of the change to the recommended schedules, either the President can make adjustments with only informing Congress of his reasons or Congressional action is required.
Increased Flexibility			
Classification/grading		Delegation of pay bargaining to executive agencies from 1994 (see above) is intended to give greater freedom in grading.	Recent administrative and legislative proposals could significantly increase the range of flexibility and discretion agencies have in determining classifications and placing employees with them. However, standards for accurate grading would be expected to continue.
Deployment/mobility			In general the deployment of staff is agency based. The mobility of staff within agencies and between agencies is not controlled and is largely dependent on the career choices being made by employees.

	Turkey	United Kingdom	United States
Recruitment/selection/termination	Move towards a more centralised systematic recruitment system 1991.	1991, delegated open recruitment for all posts at departmental discretion, in consultation with the centre on senior grades and agency chief executives. Flexibility in recruitment methods and criteria. 1993, delegated setting of recruitment criteria for all posts except senior and fast stream feeder grades. Open recruitment for chief executives of executive agencies. Flexibility in recruitment of staff, retention of staff beyond retirement age, fixed term appointments with bonus rates, etc.	In general the recruitment process is being decentralised to agencies. Within the next year, legislative and administrative proposals could further simplify and decentralise recruitment. Selection is generally agency based. However, the Office of Personnel Management screens the qualifications of employees proposed for executive positions. Termination is also agency based; however, employees can appeal such actions to, review bodies outside the agency.
Terms of employment/working arrangements	Contract employment for staff in State Economic Enterprises (S&Es) 1990.	Departments and agencies have large degree of flexibility in determining basis of employment. Chief executives of executive agencies recruited on fixed-term contracts. Delegation of pay bargaining to executive agencies from 1994 gives scope for negotiating more flexible employment conditions and working arrangements. Since 1989 flexible working hours, job sharing, part-time work, home working and career breaks have been promoted to encourage women to make careers in the Civil Service.	1991 flexible or compressed work schedules; part-time employment <b>16-32</b> hours per week; flexiplace (working at home).
Pay	Allowances provide some flexibility. Market rates taken into account for scarce groups. Special supplements for job difficulty, risk,	Flexible pay agreements negotiated for civil service since 1987 and renegotiated to include comprehensive performance pay arrangement from 1992. These agreements superseded in executive agencies and others taking delegated pay bargaining from 1994, to help develop	1990 Federal Employees Pay Comparability Act provides increased flexibility through locality pay (implemented 1994 onwards). Act also provides for special salary rates, bonuses and allowances for a variety of reasons, including recruitment and retention, relocation, critical

	Turkey	United Kingdom	United States
Pay (cont'd)		more flexible pay arrangements. Delegation initiative continues to be extended.	positions. Performance pay for senior officials (see below).
Performance Management	Performance evaluation being developed since 1989 but not yet generalised. No system of performance-related pay except in SEEs where performance premiums may be awarded.	Performance appraisal, based largely on objective-setting and competence frameworks, for all non-industrial civil servants. Appraisal increasingly part of an integrated approach to performance management. Performance pay for some senior grades since 1987; schemes for all grades including Permanent Secretaries; progressively introduced throughout civil service since 1991. Executive agencies may also run group bonus schemes linked to quality of service and efficiency savings.	Performance appraisal for all managerial staff. Performance Management and Recognition System 1984 provided for performance appraisal and performance pay for middle managers and supervisors; system discontinued 1993 and not yet replaced. Performance pay for Senior Executive Service since 1980. Federal Employees Pay Comparability Act 1990 gives agencies flexibility to design own performance appraisal systems.
Cutting Costs	A cap on overtime payment of all workers and the wages of temporary workers was introduced in 1994.	25 per cent reduction in civil service employment between 1979 and 1993. Limit of 1.5 per cent on public sector pay increases in 1993. Cost of pay increases in 1994 met from efficiency savings.  Programme of senior management reviews in all departments.	1993 move to cut public service staff by streamlining departments. 1994 plan to cut federal positions by 252 000, i.e. 12 per cent over next five years. The National Performance Review includes a range of measures, for example, reducing the cost and numbers of positions associated with management control structures by half; using multi-year performance agreements between President and agency heads to guide downsizing strategies. President has exercised his power to restrain pay increases on a number of occasions in recent years.
Human Resource Development	Central examination of public servants since 1987 with language achievement pay awards. 1989 training for senior executives on implementation of modern techniques in public	Line managers encouraged to take responsibility for staff development rather than relying on personnel and training units. Development opportunities include a number of	1990 Human Resources Development Group established by OPM to provide political leadership and technical assistance to Federal agencies, including promotion of training and

	Turkey	United Kingdom	United States
<b>Human Resource Development (cont'd)</b>	administration. Since 1990, in-service training for senior executives on <b>HRM</b> .	discrete programmes at specific management levels. Increasing emphasis on vocational qualifications, particularly for more junior staff.	development needs.
<b>Equal Employment Opportunities</b>	Provided by Constitution and related laws.	<b>Series</b> of EEO initiatives launched 1990. New programme of action for women in Civil Service launched in 1992. Progress reports are published annually. In 1990 a Programme for Action on Race was published and progress was reviewed in 1993. A Code of Practice on Disability was published in 1990 and was upgraded to a Programme for Action 1994. Civil Service departments and executive agencies have been given flexibility to adapt working patterns to suit their own needs.	Federal equal opportunities recruitment programme ( <b>FEORP</b> ).

*Annex 4*

**COUNTRY CASE STUDIES**



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## INTRODUCTION

The examination of human resource management (HRM) reforms in the eight selected OECD countries which follows was carried out **as part of** a cross-national study conducted by the Public Management Service of the OECD. The countries included are: Australia, Canada, France, the Netherlands, New Zealand, Spain, Sweden, and the United Kingdom. Following the broad ranging examination **of** reforms across the OECD **as** a whole, presented earlier, this section **of** the report focuses on a more **detailed** and practical assessment of HRM reforms and reform strategies as they are applied in individual countries. These countries have been selected on the basis of two main criteria: (i) all reported a significant HRM reform effort in the first survey phase of the study, including in most cases a commitment to decentralise HRM from central management agencies to line departments and agencies, and to devolve more responsibility to line management; and (ii) the countries selected exhibit a range of different types of public service systems.

The case studies are based on interviews conducted with senior management **and** other officials with substantive knowledge of public sector HRM and public sector reforms, **as** well as on documentation provided by the departments **and** agencies reviewed. In general, interviews were held with senior management in the central management agencies with responsibility for HRM policies across the public service; in line departments and agencies interviews were typically held with senior executives, line managers, and in some cases, with union representatives.

In line with the overall design of the study, interviews and other information collection focused on the following areas: decentralisation and devolution of HRM; how **HRM** flexibilities are being used at the line department and agency level; strategic integration of HRM with the broader goals and activities of the organisation; strategies for introducing and implementing HRM reforms; **and**, where possible, the effects of reform on everyday practices in the organisations.

In general, the case studies are structured **as** follows: The first section provides an overview of public sector **and** HRM reforms and reform strategies in the country, along with descriptions of the roles of the central management agencies in making **and** providing oversight for HRM policies. The overview is followed by an examination of how HRM reforms are operating in practice in selected line departments and agencies.



## HUMAN RESOURCE MANAGEMENT REFORMS IN THE AUSTRALIAN PUBLIC SERVICE

by Maria Maguire

### HRM Reforms and the Role of Central Management Agencies

A comprehensive program of structural and management reform has been pursued in the Australian Public Service (APS) over the last decade. The reform program has had the sustained support of senior government ministers and high level public servants.

The management of people is seen as a key element in the reform program. The Management Advisory Board, which is a high level body charged with advising the government, through the Prime Minister, on significant issues concerning the management of the APS, has emphasised the critical role that people play in the reform process. In a paper entitled *Building a Better Public Service* (1993), the Board noted that:

*"The primary means for achieving this [further improvement] will be through developing the main resource of the Service, its people. The strong positive attitudes and commitment which public servants have to a better Public Service need to be brought more clearly to the forefront and used to underpin a real culture of continuous improvement."*

Key objectives of the management reform program have been to develop a public service that:

- is more responsive and accountable to Ministers and the Parliament;
- is more efficient, effective and equitable, with more rational means for the distribution of resources to priorities, and which gave managers greater flexibility in managing resources;
- has more streamlined staffing policies which more effectively pursued merit and equal employment opportunity.

Among the key changes affecting the management of people in the APS have been:

- significant devolution to departments and agencies of responsibility for the management of their people;
- the abolition of the Public Service Board in 1987, the removal of the detailed controls the Board used to apply, and the establishment of the Public Service Commission with policy responsibility for the management of people in the APS;

- revised senior management arrangements and the introduction of a Senior Executive Service;
- a range of reforms covering equal employment opportunity, the use of more participative working practices, more streamlined and flexible staffing policies;
- reform to classification structures and working arrangements through industrial negotiations;
- a greater focus on performance management arrangements, including performance appraisal and performance pay for senior staff and streamlined inefficiency procedures;
- a substantial investment in training and development, especially for managers;
- the introduction in 1992 of Workplace Bargaining at the Service-wide level and within individual departments and agencies, giving management a much greater involvement in negotiating pay and conditions with staff.

These changes have occurred in the context of the regrouping a government activities into fewer, larger portfolios, major budgetary reform, a financial management improvement program and the corporatisation of major public service activities.

The reforms have had a significant impact on the staffing level and profile of the APS, with substantial numbers of staff moving into government business enterprises and other non-APS bodies, and staff reductions in departments and agencies in the context of efficiency measures.

### ***Evaluation of the Reforms***

In 1992 the Management Advisory Board commissioned an evaluation of management improvement in the APS. The evaluation concluded that the reforms had been well directed and accepted, and that their benefits had substantially outweighed their costs. It recommended, however, that agencies needed to take more active steps to fully integrate the reforms in the public service culture and to make them work more effectively.

The evaluation found that further steps needed to be taken in the devolution of authority, especially within line agencies and between central and regional offices, and that line managers needed to take fuller responsibility for their staff and other resources. The evaluation noted the potential for improvement in the management of people, acknowledging that the attitudes and behaviour of staff and the culture of agencies may have powerful effects on the pace of change.

Workplace bargaining and the Public Service Commissions's *Human Resource Management Framework* were seen as important elements in promoting improvements.

### ***Future Directions***

In its paper, *Building a Better Public Service*, the Management Advisory Board emphasised the close linkages between the different elements of management and the consequences that changes in

one area have for other areas. The paper underlined the importance of a strategic base for the ongoing reform program, the **major** elements of which should be:

- **making performance count** - by looking closely at client needs and service quality, evaluating achievements, rewarding **good** performance at all levels, learning from and building on past performance, and being accountable;
- **leadership** - emphasising the key responsibility of agency heads in managing for results and clarifying the roles of the central agencies and other mechanisms for sharing knowledge and experience;
- **strengthening the culture of continuous improvement** - through better people management and development and by embedding attitudes and a culture that continually seeks to find better ways to achieve desired results.

The paper noted that the legislative basis of the public service needed to be consonant with *this* broad strategy and that some changes might be necessary. It also underlined that the industrial relations framework needed to support the wider reform strategy.

### ***The Role of Central Management Agencies***

The Management Advisory Board's paper, *Building a Better Public Service*, noted that:

*"The reforms of the 1980s have dramatically affected the public sector management role of the central agencies. While there **can** be some tensions between this role and their wider policy advising responsibilities, within the Public Service they are **now** more concerned with establishing the frameworks within which managers are authorised to manage. **This** will be the continuing rule of central agencies."*

Much of the responsibility for managing people in the **APS** has been devolved to line departments and agencies and, through them, to line managers. The Public Service Commission, in its publication *A Framework for Human Resource Management in the Australian Public Service*, notes that:

*"Agencies and their managers now have a good deal ~~of~~ flexibility in managing their people under a Service-wide umbrella of legislation, (industrial) agreements, policy, practices and values"*

The Management Advisory Board **was** established to advise the government on significant management issues affecting the **APS**. The Board **has** no statutory powers or executive authority, but serves **as** a regular forum for an exchange of views and information impinging on strategic **APS** management policy, and for the dissemination of best practice across the **APS**. Members include some Secretaries of departments, the Public Service Commissioner, a senior national union official, and a Chief Executive Officer from the **private** sector. The Board is chaired by the Secretary of the Department of the **Prime** Minister and Cabinet.

The Public Service Commission **has** policy responsibility for central elements of the management of people in the APS - recruitment, promotion, mobility, conduct, career paths, performance management, human resource development, redeployment, retirement **and** the

monitoring of Equal Employment Opportunity. The Commission has, since its establishment in 1987, placed increasing emphasis on its strategic policy role, on setting policy and principles frameworks, and on promoting best practice in the management of people.

The Department of Industrial Relations is responsible for industrial relations policy, pay policy, the establishment of conditions of service which have common application across the **APS**, employment structures and work level standards. It co-ordinates Service-wide industrial relations agreements and has major responsibility for negotiating the framework agreements for the **APS** which underpin agency bargaining.

The Department of Finance manages the payment of all **APS** salaries. It also has responsibility for policy advice on position classification **standards** and for specific approval of funds for Senior Executive Service staffing profiles in departments and agencies. It is responsible for encouraging efficient and effective resource management by departments and agencies.

The Department of Employment, Education and Training is responsible for the operational **aspects** of base grade recruiting, and also provides advice on national policies on training and employment.

### ***The Legislative Framework***

The legislative framework for the **APS** is contained in the **Public Service Act 1922**. The Act has been amended on many occasions since. It covers the major **as well as** many of the more detailed aspects of management of **APS** employees. The Act is acknowledged to be complex and **difficult** to interpret, out of date, and inconsistent with the contemporary management ethos of the **APS** and the community-wide industrial relations system. Many of the provisions of the Act reflect the centralised management model that preceded the current devolved arrangements.

At the time these case studies were conducted, the 1922 Act was **still** in place. However, a review of the Act was underway. This has been completed, most of the recommendations made by the review group have been accepted by the government, and a new Act is in preparation.

The provisions of the **Industrial Relations Act 1988** apply equally to the public and private sectors. This means, for example, that action to terminate the employment of **APS** employees has to comply with the provisions of the Industrial Relations Act and that **APS** employees have access to the appeal mechanisms provided by that Act on the same basis as other employees **in the** community.

Industrial awards and agreements are also significant in setting elements of the employment framework. For example, redeployment and redundancy arrangements for excess staff **are** contained in a Service-wide award agreed with the unions in 1987. Service-wide workplace bargaining agreements, negotiated with the unions, provide for pay increases and also for changes in employment practices aimed at enhancing productivity. For example, the 1992-94 Agreement included an agreement to introduce agency level bargaining on remuneration and working conditions, and a range of Service-wide changes, **such as** permanent part-time work, streamlining of inefficiency procedures and changes **in** arrangements for redeploying excess staff.

## Department of the Arts and Administrative Services (DAS)

### Interviews

Interviews were held with senior managers from the centre of the Department and with heads of line divisions (sub-programmes) as follows: General Manager Corporate Resources Division; Assistant General Manager Employee Relations and Development; General Manager Australian Surveying and Land Information Group; General Manager Ministerial and Parliamentary Services; General Manager Commonwealth Telecommunications Group. A member of the Public Sector Union also participated.

### Introduction

The Department of Administrative Services was formed in 1987 from a number of existing agencies, with responsibility for delivering a range of property, supply and support services to other APS departments and agencies. The arts component of the department was added in 1993. Since it was formed, DAS has faced major challenges in terms of organisational change. It has had to weld a number of disparate agencies into a cohesive organisation; make major adjustments to its staffing profile; and undertake the commercialisation of a large number of its activities.

A distinguishing feature of DAS, compared to other APS departments, is that most of its services have been opened to competition (while remaining in the Department rather than being corporatised, as has happened with some other departments) so that a large and growing part of its activities are carried out on a commercial basis. In 1993 DAS comprised 31 operational units, 14 of which were funded through sales revenue rather than budgetary appropriation. These 14 businesses employed about 76 per cent of the department's 9200 staff at end 1993.

The commercialisation of an increasing number of its activities has involved DAS in major restructuring since 1987. At present the Department is structured into five programmes, each containing a number of businesses or sub-programmes; these are Cultural Development, Government Services, Commercial Services, Business Development Services and Corporate Management. The department also includes the government procurement service - Purchasing Australia. DAS operates through a network of offices, work centres and depots throughout Australia. Since this review, restructuring has continued. Cultural Development has transferred to another Department and DAS has simplified to three programmes: Commercial, Business Development and Corporate.

In the process of restructuring, the Department has shed some 25 per cent of its staff - resulting in almost 6000 redundancies, all on a voluntary basis. In addition, approximately 3000 staff have been lost as a result of activities being moved out of DAS to other departments. As market share held by DAS businesses is expected to reduce further under open market competition, further staff reductions are anticipated to match capacity with demand.

With commercialisation, DAS has had to undertake a fundamental reorientation of its goals and values, with the emphasis on building a strong customer focus, marketing, competitiveness and financial success. This has involved developing business planning processes and financial systems, as well as building up the necessary commercial skills and service culture among managers and staff. At the same time, a key goal of the department is to be a good employer and, as a part of the APS, DAS must operate within the framework of the Public Service Act.

Management reforms in DAS have focused mainly, although not exclusively, on the business activities. There has been significant devolution from the corporate centre of the Department to the individual businesses, most of which operate quite autonomously. Devolution has occurred in the context of a well developed framework of corporate planning, business planning and financial information systems.

The highest priority has been to apply a "total customer focus approach" to all its business activities, supported by an integrated total quality service philosophy. A customer focus task force has been set up and the process has been piloted in a number of DAS businesses. This has involved the development of frameworks and strategies for customer focus in each business, which have led to significant changes in direction, structures and processes.

DAS management feel that the Department has experienced some of the leading edge changes in the public service and that there could be some lessons for other departments in what DAS has done. An example is the Department's adoption of accrual accounting in its commercialised areas ahead of most other departments.

### *Decentralisation of human resource management*

Service-wide reforms in HRM have, in the view of DAS management, resulted in major decentralisation from the central management agencies to the Department. The Public Service Act still provides the legal framework for management of staff, for both the business and budget-funded activities. However, there is much more flexibility to interpret the rules, there has been major financial devolution, and there is much less detailed management of the Department's affairs by central agencies. It is felt that a key element in increasing flexibility has been the abolition of the Public Service Board and its replacement by the much smaller Public Service Commission, which does not have the capacity for detailed management. In addition to the freedoms that have been given to all public service departments, DAS has gained some additional flexibility as its commercial activities have evolved, particularly in terms of increased control over its commercialised area SES profile.

Although generally satisfied with the degree of autonomy gained, DAS management perceive some constraints on flexibility, arising from service-wide policies and guidelines that are felt to be inappropriate for the Department's commercial activities which have to compete with private sector businesses. It is thought that central management agencies do not fully recognise this and that it will take some time to reach an appropriate framework for mixed-activity organisations such as DAS, which have developed commercial attributes that do not easily integrate with the standard model of public service departments, particularly in some human resource management areas.

The main areas mentioned where greater flexibility to meet commercial market place norms is desired are: wage negotiations (although it is acknowledged that the workplace bargaining arrangements introduced across the public service from 1992 provide greater flexibility, it is felt that the current arrangements are not well suited to the needs of a business department like DAS); remuneration arrangements and performance pay (here again it is felt that service-wide policies are not always well suited to the Department's particular needs); redundancy arrangements (which are negotiated centrally); recruitment of senior executives (SES), and the categories of staff that can be hired (e.g. casual staff). The need to defend selection and other decisions to central agencies is quite time consuming and necessitates a lot of paperwork, although it was noted that procedures had become more flexible.



The view expressed by the union representative was that the union was willing to be flexible on the issue of core conditions of service for the DAS business operations. The basic requirements would be for a common pay spine and overall conditions that were no worse than at present.

### *Devolution to line managers*

The Department has made a significant effort to devolve responsibility for HRM from the corporate centre to the individual businesses and budget-funded sub-programmes, focusing at the centre on setting policy frameworks and corporate strategies. The business operations have gained most freedom; they largely set their own HRM policies and manage their own operations with no constraints apart from corporate policy, the Public Service Act and guidelines set by central management agencies. Each business and budget-funded activity develops its own business plan, based on corporate goals, and including HRM goals and strategies. Businesses can undertake their own restructuring, there are no corporate establishment and classification controls apart from work standards. The introduction of workplace bargaining has been especially important in expanding the range of flexibilities available to businesses. Despite progress with devolution, however, corporate management feel that there is a significant learning curve and that line managers do not always make full use of the flexibilities currently available seeing the constraints rather than what is possible.

The devolved nature of HRM is reflected in the organisation of the corporate HR function. This is a small unit with just 25 staff, responsible for the development and management of HR policy issues. Its function is to provide support and advice to the top management of the Department and to the sub-programmes. The Assistant General Manager Employee Relations and Development has direct responsibility for HRM, under the direction of the General Manager of the Corporate Resources Division. A separate operational unit, comprising about 250 staff and operating on a fee-for-service basis provides HRM services to the department including the business units. Businesses are also free to purchase HRM services from outside suppliers. The HR function is now very much smaller than before the commercialisation of the Department, reflecting both the overall reduction in Department size, as well as the reduction in demand for HRM services where a user pays basis exists. The relationship between the corporate HR function and line operations is advisory and collegiate rather than directive.

Staff reductions were initially handled centrally within the Department. Subsequently, the individual businesses have negotiated their own reductions, within the framework set by service-wide guidelines. The union perception is that a service-wide agreement with the unions on voluntary redundancy was important in creating a climate where it was possible to conduct business-level negotiations. A staff adjustment programme, aimed at retraining and redeploying surplus staff to employment within and outside the public service is run from the centre of the Department.

Workplace bargaining is, at least in the initial round, being handled centrally, but with substantial involvement by the businesses. A central bargaining unit is responsible for setting the overall framework and principles for the Department, although businesses are being treated on a case by case basis within this framework. Individual businesses set up their own arrangements for enterprise bargaining and enter into negotiations with the unions. The budget-funded activities of the Department are being treated as a single unit for bargaining purposes.

Although both the businesses and the budget-funded operations are responsible for running the performance pay system for the Senior Officer grades, there is a centralised moderation process for the Department in order to maintain more or less consistent standards.

There has also been significant devolution of HRM within the business operations. The typical situation is that major HRM decisions are taken and overall policies set by the business executive, with other aspects being devolved to divisional managers. Devolution within budget-funded operations has been less significant.

### *Use of HRM flexibilities*

The picture that emerges is of a department still in transition. There is a fair degree of flexibility but it is not always fully used. The main focus has been on restructuring and downsizing rather than developing other areas of HRM. Structural changes have taken up the bulk of managerial energy, making it difficult to focus on other aspects of HRM. Putting in place business planning processes and financial management systems has also absorbed much of the Department's attention. Both the management and union sides expressed the view that the staff reduction programme had made it difficult to be positive about tackling other HRM reforms and that only after the reduction programme had been completed could other matters be dealt with.

The perception of management is that the Department is still on a learning curve in terms of using HRM flexibilities and that there is a tendency to rely on rules instead of exercising managerial discretion. There is also some concern that there is a great disparity in the way the rules are administered in different parts of the Department and that more attention needs to be given to setting an overall framework for HRM.

Aside from staff reductions, the areas of HRM where most attention has focused have been devolution to line managers, as discussed above, and development of the necessary skills to enable staff to apply a customer focus to their work. In this sense DAS has begun to integrate the management of its people more closely with corporate objectives and to tailor HRM to its particular needs. Initiatives have included assessment of staff competencies as a basis for personal development agreements with staff, improving leadership skills and team building.

The introduction of workplace bargaining is seen as having great potential for the Department. The corporate plan signals the intention to use the new bargaining arrangements to develop remuneration structures which are more closely linked to performance, including the financial performance of sub-programmes. A number of the businesses have begun to negotiate structural changes and improvements in working practices in the context of workplace bargaining.

In some areas the new HRM regime for the public service is felt not to have brought much benefit to the Department. The current, service-wide performance pay arrangements were mentioned in this context as providing little scope for the Department and its managers to use the scheme in a flexible way to meet their own particular needs. Industrial democracy was also mentioned as an area where there has been little in the way of tangible results. This view seems somewhat at odds with the experience of at least some businesses; for example, DAS Asset Services reported in the 1992-93 Annual Report that staff participation in decision making under the industrial democracy arrangements had been a significant factor in the business's strategy for commercial success. These conflicting views suggest that experience across the Department has been quite uneven.

The annual reports from individual sub-programmes suggest that their use of HRM freedoms has, up to now, focused mainly on training and development of staff in the skills and competencies required to meet the changing needs of their organisations. However, a number of sub-programmes are negotiating changes in work practices in the context of workplace bargaining. Sub-programmes

have also made significant adjustments to the number and distribution of gradings and classifications of staff deployed on their workload, having total freedom to do so provided they comply with service-wide position classification standards. Other measures mentioned by sub-programmes include required reporting on the implementation of service-wide policies in industrial democracy and EEO.

### *Strategic integration of HRM with goals and activities of the organisation*

The way that the role of the corporate HR function is defined emphasises strategic aspects. Its stated mission according to the 1992-93 Annual Report is to facilitate the effective management of the Department in accordance with the DAS Corporate plan, by providing the Secretary, the Executive and the sub-programmes with high level executive support and advice. It is thus seen as situated at a critical juncture between top corporate management and the sub-programmes. The HR function includes units dedicated to employee relations and development and the staffing adjustment programme.

The corporate HR function is situated within the DAS Corporate programme area. The General Manager for Corporate Resources has overall responsibility for HRM and reports to an Executive General Manager responsible for resources, corporate policy and management, who in turn reports to the Secretary of the Department. HRM issues are brought to top management via the Executive General Manager of DAS Corporate, who attends the weekly meeting of the Executive Committee of the Department, which sets major policy directions, including HRM, and reviews the performance of the Department. The Executive General Manager is also a member of the DAS Board, although this Board is concerned with the commercial aspects of the Department's operations only and does not tend to deal with HRM issues. The Human Resource Development Advisory Committee is chaired by the Executive General Manager Corporate and has representative General Manager involvement (Corporate Resources, several businesses), an assistant general manager (HRD) and union representation. This committee reports to the Departmental Executive committee, and is responsible for determining the human resource development policies for the Department to meet broad departmental (or corporate) management goals. It seeks to identify areas where human resource development may be warranted in a strategic sense, while operational requirements remain at the business unit level. There are also a number of consultative committees for matters such as EEO and industrial democracy.

The corporate HR function sees its role very much in terms of developing HR policy strategies for the Department that reflect corporate goals. To date its main areas of focus in this respect have been: developing and implementing programmes to improve leadership skills in the Department; planning and overall direction of a competency-based approach to staff development across the Department; setting a Departmental framework for workplace agreements and concluding the agreements; strategies for dealing with surplus staff; implementation of performance appraisal and performance pay for the SES and Senior Officers and, subsequently, evaluation and review of the schemes.

DAS has a mission statement, a corporate plan and business plans. There is no separate HRM plan; HRM goals and strategies are articulated in the corporate plan and the business plans. The corporate plan sets four goals, one of which is to be a good employer; it details strategies and actions for attaining each goal, defines the timing and responsibility and indicates how performance against the goals is to be measured. A number of specific HRM strategies and actions are set out in the corporate plan. The plan also articulates organisational values for DAS, several of which have direct

implications for **HRM**: teamwork and co-operation; empowering individuals to lead change; and clarity, consistency and honesty in communications.

Businesses and other sub-programmes are required to draw up business **plans** and these must include HRM strategies and actions related to corporate goals. Reflecting this, actions to promote a customer focus and quality of service are a key part of business plans and these incorporate a range of **HRM** aspects. The plans also typically include strategies and actions related to people, leadership and communication, all with important **HRM** components, especially in the **areas** of training and development. Increasingly, business plans contain actions designed to reorient work practices in the light of the goals of the businesses. Performance management elements are also beginning to be incorporated and links forged between performance appraisal and rewards **and** customer focus and client satisfaction criteria. **As** workplace agreements are concluded they are being incorporated into business plans.

### ***Reform strategies***

Like other APS departments, **DAS** has had to take on increased responsibility for managing its own people at a time when it was also undergoing major structural and organisational changes. The priorities for the Department have been, and continue to be, adapting to the commercial environment in which much of **DAS** now has to operate, and implementing the associated changes in structure, staffing levels and organisational culture. **As far as** HRM is concerned the Department's strategy has **been** one of progressive change rather than sudden, radical reform **and** the emphasis **has** been on applying the policies given by the Public Service Commission rather than innovating. **More** recently, however, the businesses in particular have begun to show signs of developing their own, more distinctive approaches in some areas of HRM.

The main influences on **HRM** strategies have been changes in organisational structure, commercialisation, and the policy framework set by the Public Service Act and by the central management agencies. As a result of these influences, the areas of primary concern have been devolution to line managers of increased responsibility for **HRM**, the staff reduction programme, training and development, and implementation of policies given by the central management agencies, especially in the areas of pay, performance management, industrial democracy and **EEO**,

**Devolution to line managers:** The restructuring of **DAS** into a number of businesses and other sub-programmes and the commercialisation **of** an increasing proportion of its activities have, **as** described earlier, necessitated a much more decentralised approach to the management **of** people in the Department, especially for the business activities. The corporate centre **appears** to have adopted an essentially **hands off** approach, leaving managers of commercial businesses to run their own **affairs**, taking account of the good employment strategy set out in the corporate plan. Only in a few areas, such **as** staff reduction, workplace bargaining and development of a competency-based approach to staff development, has the corporate **HR** function become involved in developing detailed strategies and directing **HRM** activities. Corporate **HR** function undertakes the establishment of a framework for HR in all emerging areas of activity, e.g. enterprise bargaining, and jointly with operational areas pursues HR activity while providing guidance **and** ensuring corporate policy adherence by operational areas. The higher the operational area competence, the lower the involvement of corporate **HR**.

**Staff reduction:** As a matter of government policy, staff reductions have been achieved through voluntary redundancy and have involved extensive negotiations with the unions concerned. Joint

union-management working parties negotiated the departmental restructuring in the period 1987-1990 and the downsizing was achieved on the basis of an agreed staffing adjustment programme without any significant industrial dispute. However, the rate of acceptance of voluntary redundancy is slowing down and with about 500 staff still surplus to requirements it may prove difficult to achieve the further reduction needed. At the time the interviews took place the Department was in dispute with the unions on arrangements for managing surplus staff. The dispute was resolved amicably, with the adjustment programme to be subsequently reviewed jointly by management and staff. The industrial award under which DAS staff are employed provides for involuntary redundancy or retirement but has not been activated.

At the outset the staff reduction programme was driven by guidelines from the government. Redeployment via a Public Service Commission unit was available, but only if staff were formally declared excess, which has significant industrial implications. Individual businesses determine the number of surplus staff to be redeployed, after which those staff are transferred to the staff reduction programme.

**Training and development:** The Department is involved in a major training and development effort, aimed primarily at building the skills and competencies needed to succeed in its new, commercial environment. The corporate plan sets targets for training in specific areas and pledges to spend at least 3 per cent of salary costs on training and development activities. The areas targeted in the corporate plan include skills in marketing and selling, finance, management and leadership; decision making, risk management and accountability; and industrial democracy and participative management skills. A key element of the Department's strategy is assessment of staff competencies as a basis for personal development agreements, starting with middle managers and extending progressively to other levels. This is an area where the corporate HR function has played a major role in planning and overall direction. The corporate HR function is also developing and implementing programmes designed to improve leadership skills across DAS.

Individual sub-programmes have developed their own training and development activities, tailored to their particular needs, in some cases spending more than the targeted 3 per cent of the salary budget and delivering training to a high proportion of their staff.

**Pay:** The strategy with respect to workplace bargaining has been to develop an overall framework for the Department within which individual businesses can undertake their own negotiations. Management's objective has been to secure changes in work practices which can contribute to improving its commercial performance, and to develop remuneration structures which are linked to the financial performance of sub-programmes and which distinguish between good and poor performance on the part of staff. At the time the interviews took place no workplace agreements had yet been concluded (each business unit is pursuing a separate agreement to suit the particular service industry the business is in).

The implementation of service-wide performance pay arrangements for the SES and Senior Officer grades has proved somewhat problematic as the Department feels that it has been obliged to apply a scheme which is inappropriate to its organisational culture. The Department has placed considerable emphasis on developing a team-based approach and individual performance pay is felt to run counter to this.

**Performance management:** The development of performance management has been uneven. As discussed earlier, the corporate planning process is well developed with clear definition of corporate objectives, feed through of these objectives into business plans, and arrangements for monitoring and

review of sub-programme performance against the business plans. Arrangements for the integration of business plans with individual performance plans are less well developed. It is only with the advent of performance pay that performance appraisal has been developed on a systematic basis for managers, and key organisational objectives, such as customer focus, are only gradually being built into individual performance plans and performance appraisal. However, some sub-programmes are in the process of developing performance agreements for all their staff which reflect organisational objectives, through "team goals" for example; arrangements to provide feedback to staff on achievement against performance agreements are also being put in place. The current performance pay arrangements are not felt to be making a meaningful contribution to performance management. As discussed above, there is good integration between corporate objectives and training and development measures aimed at improving individual performance.

*Relations with the unions:* The Department has pursued a policy of consultation with the unions about commercialisation, reforms and staff reductions. The view expressed by the union representative was that management have always been available to discuss issues of concern. The corporate plan is produced in consultation with the unions and the most recent plan was discussed with staff in a series of workshops across Australia.

Under the industrial democracy provisions applying to the public service as a whole, DAS is required to implement an industrial democracy plan. The corporate plan includes as a strategy the use of participative management practices to gain staff ownership of DAS's objectives, performance and reputation, and a commitment to integrate industrial democracy principles into everyday HRM practices. Sub-programmes are required to develop industrial democracy arrangements. The majority of sub-programmes have formal consultative bodies which meet at least quarterly. The Department's annual report suggests that some sub-programmes have used the industrial democracy requirement very actively to involve staff in decision making and in implementing organisational changes; other sub-programmes appear to have taken a less active approach, merely providing information to staff.

The Department's management are concerned that the unions are not well prepared for workplace bargaining and are not able to provide an adequate counterpart to the management side. In the view of management the local employee delegates have not been correctly informed by their union as to the nature of workplace bargaining and are not representative of the views of their members. The Department is seeking to improve the quality of employee delegates who participate in the bargaining process.

*EEO:* In line with public service requirements, DAS has developed an EEO programme. The 1992-94 EEO Action Plan sets out four main elements of the Department's EEO strategy: developing a set of EEO standards for DAS which are integrated into its HRM framework; collecting and analysing EEO data by sub-programme; inviting sub-programmes to nominate EEO initiatives; linking performance in EEO to performance appraisal for SES and Senior Officer positions.

### *impacts of HRM reforms*

There has been no specific evaluation of HRM reforms in the Department. However, the performance of the Department as a whole and of individual sub-programmes against stated HRM goals is evaluated regularly. Staff satisfaction surveys are used to assess the Department's performance against the corporate goal of being a good employer. The views of unions are regularly available through consultative fora at the corporate (department-wide) and individual subprogramme level. Unions take a strong interest in human resource development and are expressive about

individual employee development as distinct from supporting departmental Strategic HR needs. The annual report of the Department includes statements of progress with industrial democracy activities, EEO and occupational health and safety. Since the time of writing, DAS has recognised the need for an improvement in its HR development to meet its strategic needs, and has adopted a major effort in "Developing People" in its latest corporate plan.

The performance of sub-programmes against their approved plans is reviewed by the Secretary of the Department and the corporate HR function. Business plans include a statement of key performance indicators for the goals and actions enunciated in the plans. Some sub-programmes include indicators of HRM in their plans, other do not. Where such indicators are included they appear to mainly take the form of staff satisfaction surveys. Indicators of customer focus and quality of service may include indicators for associated HRM actions. Efforts are being made to develop performance indicators for training activities.

The assessment of those interviewed is that some businesses are working well in a devolved managerial environment, others less well, and that employee responses to HRM reforms have been mixed. The redundancies resulting from staff reductions and the environment of constant organisational change are considered to have impeded the cultural change that the Department is trying to promote. Organisational changes have not yet settled in and the real benefits have yet to be reaped. Workplace bargaining is considered to have great potential but will take time to settle in.

## **Department of Transport and Communications**

### *Interviews*

The interviews in this department were with officials in the corporate centre only and did not include any contacts with line managers. Those participating included the First Assistant Secretary, Corporate Management Division; the Assistant Secretary, Human Resources Branch; and the Director, Human Resource Planning Section.

### *Introduction*

The Department of Transport and Communications was created in 1987 in the context of the government's machinery of government reforms, bringing together three existing departments. Since then, there has been substantial change in public policy on transport and communications, resulting in a fundamental transformation of the Department's role and activities and in major organisational restructuring. Crucial elements of the reforms in the portfolio have been extensive deregulation, corporatisation and privatisation of activities. Competitiveness, efficiency and customer-orientation are key objectives of the new policy and institutional framework that has been established.

The reforms have involved a major divestiture of functions from the Department through the establishment of Government Business Enterprises, and transfer of some functions to new regulatory agencies and to local authorities. While these newly created bodies come under the authority of the portfolio minister, they have a separate statutory existence and are essentially independent of the Department.

As a result of these changes the Department's role has been transformed from programme delivery on a large scale to one of providing policy advice to the minister. There has been a corresponding reduction in the size and geographical spread of the Department. At the time it was

established in 1987 it had almost 12000 staff; by 1993 it had only 1 200. Some 75 per cent of the original staff were **transferred** to the newly established Government Business Enterprises; **actual** staffing reductions in the remaining corporate core of the Department were of about 10 per cent. Most of the activities that became commercial operations undertook reorganisations. The Department's activities are now concentrated **mainly** in Canberra, in contrast to the previous situation when its activities demanded a large presence in the states and a corresponding regional structure in its organisation.

The extent and frequency of structural change since 1987 has presented major challenges for the Department. Significant efforts have been required of its managers in establishing the necessary legislation and infrastructure for newly created business enterprises and agencies, negotiating organisational changes and staffing arrangements with the unions and providing support services during the initial period of operation of the new organisations. Subsequent to the interviews the Department was divided, in December 1993, into separate departments of Transport and Communications. In January 1994 the Department of Communications became the Department of Communications and the **Arts**. These changes resulted from reallocations of portfolio responsibilities among ministers.

To manage organisational change and to deliver the efficiency gains that have been demanded of all public service organisations, the Department has had to transform its management structures and processes. Key features of its strategy have been the alignment of organisational and programme structures, devolution to sub-programme managers of responsibility for programme outputs and authority to allocate resources, **and** better integration of the management **and** decision-making structure.

For the most part, these management **reforms** have been effected on the basis of a common set of reform instruments instituted throughout the public service. The corner-stone of the Department's approach in this context has been the use of the corporate planning and programme management processes developed under the government's administrative reform programme. More flexible financial management arrangements and budget processes for public service departments have also been essential in enabling managerial devolution within the Department. Service-wide human resource management reforms are considered by the Department to have provided additional useful instruments for effecting organisational change and increasing efficiency.

The Department was in a consolidation **phase** at the time this case **study** was undertaken with most of **the** management reforms largely settled in.

### ***Decentralisation of human resource management***

In common with the rest of the public service the Department **has** moved from a centralised and rule-bound human resource management environment to operating with much greater flexibility within a given policy, legal and budgetary framework. Although **this** Service-wide framework imposes some standardised procedures and structures, **as well as** setting broad parameters on the way that policies can be implemented, the Department considers that it **has** sufficient flexibility in the sphere of human resource management. The view taken is that the Department's activities fit appropriately into the standard Public Service framework and that it does not require any special flexibilities to carry out its functions efficiently **and** effectively.



The Department's management have **good** working relationships with central management agencies and feel that they have usually been consulted adequately about Service-wide policy changes affecting HRM.

Within its budget framework, the Department **has** a large measure of discretion over its staffing level and staffing **mix**. The most important flexibilities gained **as** a result of the government's administrative reforms are considered to have been the freedom to establish the Department's own organisational structure and to create and abolish positions; authority to determine the numbers of staff at various levels; increased power over recruitment; and the Service-wide simplification of the classification system.

Two areas where the Department's management perceive some inconsistency in the current arrangements are the control over **SES** positions **by** the Department of Finance in addition to overall budget control, and the continuing requirement to yield a financial efficiency dividend annually after the introduction of productivity-based workplace bargaining.

The feeling is that the reforms in the financial and human resource management regimes have brought about a genuine transformation in the attitudes of managers, and that most managers now consider that they are responsible and accountable for their budget and their staff.

#### *Devolution of HRM within the Department*

In defining **its** approach to devolution, the Department has been concerned to strike a balance between maintaining coherence in corporate direction and pushing responsibility for management of people **and** money down to line managers. The process of devolution is still in a transitional phase and despite a commitment in principle there has not to date been significant devolution of corporate services (e.g. legal services, IT, HRM). In the case of HRM, devolution **has** perhaps been hampered by the lack of a well defined human resource management strategy for the Department, although this is now being developed (see below).

Nevertheless, heads of divisions, who **are** responsible for sub-programmes, have gained some flexibilities. They **are** able to appoint their own staff up to Senior Officer Grade C level and decide on divisional structures up to and including Senior Officer Grade **B** level (the level below the **SES**). The corporate HRM function provides a consultancy service to division heads in this context. Devolution is also underpinned by automated financial **and** human resource management information systems. Division heads **are** also responsible for determining the distribution of performance ratings within their divisions for the purposes of performance pay for Senior Officer grades. Those interviewed felt that the design **of** the scheme (which is standardised across the Public Service) does not provide sufficient guidance for clear distinctions to be made between some levels of performance.

Significant areas of HRM retained at the corporate centre include: creating and abolishing positions, pay, workplace bargaining (sub-programme managers were consulted but not involved in negotiations), and **staff** development (however Divisions may also spend their own resources on training of their choice). The **departmental** Human Resources committee examines performance appraisal ratings done at divisional level and division heads may be **asked** to justify ratings distributions.

In addition to the specific HRM responsibilities that have been devolved to sub-programme managers, these managers are closely involved in the development of HRM policies and decisions on

HRM issues for the Department as a whole. This involvement has come about as a result of a management structure, including a departmental HR Committee, which is described in the next section.

The assessment of corporate management is that sub-programme managers are reasonably satisfied with the current situation regarding devolution of HRM and do not desire any increase in their freedoms. There appears to be a need for better training for line managers in people management and efforts are being made to address this. There are no immediate plans to increase the amount of devolution.

The corporate HR function has been reduced in size from about 140 to about 80 people. Most of the reduction has been at State level, reflecting the virtual disappearance of the Department's regional organisation. There has been little change in the number of people in the HR function in Canberra. Corporate HR still retains an involvement in all areas of HRM. However, as a result of devolution and the broader organisational changes discussed above, its role is changing. The most important change is that the former activities involving control of the establishment structure have given way to a focus on planning and policy development and a HR strategy for the Department is currently being developed. The structure of corporate HR has also changed, from one based on functional areas (e.g. pay, recruitment) to a team responsible for each sub-programme. The aim is to get the teams to focus on broad HRM issues rather than detailed implementation, and to develop a consultative function vis-a-vis the sub-programme managers, in place of the former control-based relationship.

#### *Use of HRM flexibilities*

The overall impression gained is that the Department has not, so far, placed much emphasis on using its increased flexibility in HRM to develop policies and practices that are specifically tailored to its own organisational needs. The accent has been on applying reforms developed for the public service as a whole -- for example, the introduction of the SES, performance appraisal and performance pay, more flexible classification structures -- rather than innovating. One reason for this has been that the extent and pace of restructuring have placed great pressure on HR staff and on management generally, leaving little time for attention to development of a HRM strategy for the Department. As the Department enters a period of greater organisational stability, more attention is now being focused on strategic HRM issues. There was also a suggestion that at least some of the HRM reforms that have been instituted across the public service leave relatively little leeway for individual departments to adapt them to their own needs; this was felt to be the case with performance pay and to a lesser extent workplace bargaining.

#### *Strategic integration of HRM with the goals and activities of the Department*

As part of its organisational change strategy, the Department has integrated its management structure and decision-making through two senior management committees which advise the Secretary's Management Group. One of these committees is the Human Resources Committee (the other is concerned with planning, evaluation and audit). Both committees have decision-making powers and report, as required, to the Secretary's management group which comprises the Secretary of the Department, the two Deputy Secretaries and two division heads on a rotating basis. The HR Committee is chaired by a Deputy Secretary and includes all the division heads or their SES

delegates. Thus, division heads are exposed regularly to HR issues for the Department and have an input to corporate decision-making.

Responsibility for HRM falls within the Corporate Management Division. The heads of the HR branch and the HR Planning section report to the head of this Division, who in turn reports directly to the Secretary of the Department.

The Department has a corporate goal statement and a corporate plan. The corporate plan includes HR objectives. While there is as yet no overall human resource strategy statement in place, there exists a range of policies and strategies on specific HR issues. A human resource strategy is being developed. The links between corporate planning and HRM need to be improved. The feeling is that so much of management's energy has had to be put into implementing structural changes and dealing with the associated staff reductions that there has not been time to focus on longer-term strategic issues. However, corporate HR is concerned to strengthen its planning and policy development role and to integrate HRM policies more closely with the corporate strategy and corporate planning processes. The development of a HR strategy has been identified as a priority in the Corporate Plan for the period 1993/94 - 1995/96.

The HR strategy that is being developed is an attempt to link the corporate plan, internal work plans, personal development plans and performance agreements for senior managers (SES and Senior Officers). Work is also underway to forge closer links between Departmental performance indicators, sub-programme indicators, and individual performance indicators.

### ***Reform strategies***

Approaches to HRM reforms have been shaped jointly by the needs of organisational change and by HRM reforms instituted across the public service rather than by any overall HRM strategy specific to the Department. The Department sees itself as part of the broader APS; however it is developing its own HRM strategy. Key influences on HRM to date have been: the need to manage staff reductions; the move to a programme structure with increased authority and responsibility for managers; and service-wide developments such as the introduction of the SES, decentralisation of HRM processes, and requirements to establish departmental consultative councils and to implement EEO policies.

**Staff reductions:** Managing organisational restructuring, including some staff reductions, has taken much of the energy of the Department's HR staff up to recently. Strategies have had to be developed and negotiations held with staff associations and unions. Some staff reductions in portfolio agencies such as the Civil Aviation Authority have also had an impact on the remaining core of the Department: on the one hand, surplus staff have had to be placed either internally or elsewhere in the public service, or offered early retirement; on the other hand there have been short-term shortages of personnel and skills within the Department as a result of staff electing to transfer elsewhere or to retire. These events have necessitated the expansion of training and development as well as the use of counselling and outplacement services.

**Classification structure:** The classification profile of the Department has changed substantially over the past several years, with a reduction in the proportions of technical staff and lower level administrative staff, and a relative increase in the proportions of staff in the Senior Officer grades. These changes have come about as a result of organisational restructuring and the shedding of many

of the Department's previous functions, as discussed above. Apart from this there have been no major changes in classification and grading structures.

*Delegation to line managers:* The move to a programme structure, with increased responsibility of managers for the achievement of programme outputs has, as discussed above, necessitated delegation of authority to manage people (and, of course, to allocate financial resources). The strategy adopted has been one of gradual, selective delegation. This has been carried out on the basis of a set of principles developed by the Secretary's Management Group and sub-programme managers have been consulted in this context.

*Training and development:* With increased managerial delegation, a clear need has emerged to devote more attention to staff development. A revised staff development strategy was issued in April 1993, including the introduction of Personal Development Plans. The Staff Development Plan for 1993/94 places the emphasis on training activities that support the achievement of corporate objectives. As a result of two recent instances where the Department's actions have been the subject of Parliamentary and public scrutiny, a major priority area is Legal Awareness training. Other areas emphasised include people management skills, financial management, policy formulation, studies in economics, law and business, and presentation skills.

The Department has encouraged greater staff mobility, particular at senior levels and has pooled all SES positions.

*Industrial democracy:* All public service departments are required to establish consultative councils and to promote workplace democracy. The Department has tried to involve staff in the corporate planning process, in policy development and implementation, and in programme management. This is considered to be important in forging commitment on the part of staff.

*Pay:* In common with the rest of the public service the Department has introduced performance pay for the SES and the Senior Officer grades. After one year of experience with performance pay the feeling was that the current system does not enable sufficient distinction between different levels of performance.

At the time the interviews took place the negotiation of a workplace agreement was in progress. Although staff were enthusiastic, management noted that it was particularly difficult for a policy department to identify productivity gains which could generate savings to fund a pay increase, especially following a decade of pressure on resources and productivity reforms,

*Performance management:* Notwithstanding the introduction of performance pay and the associated requirement to carry out performance appraisals for the SES and Senior Officers, performance management is not well developed in the Department. Although line managers feel more responsible for the management of their staff, performance management has not become an integral part of their activities. Those interviewed felt that particularly when managers are under pressure, the focus tends to be on delivering policy advice and HRM tends to be accorded a lower priority.

### *Impacts of reforms*

There has been no comprehensive evaluation of the HR function or of HRM reforms in the Department. Although value for money is reviewed periodically, there has been no real development yet of performance indicators for HRM. As a result of the move to a team-based structure for the

corporate HR function, discussed earlier, personnel teams are beginning to compare against one another in terms of performance. Departmental evaluation programmes may on occasion evaluate particular aspects of HRM and the Departmental Human Resources Committee provides a means of regular scrutiny. Human Resource Development policies are evaluated annually in fulfilment of a service-wide requirement. Those interviewed were generally positive about the more decentralised HRM environment within which the Department now operates and there is no wish to return to the old, centralised public service model. Priorities for the future are adjustment to the new, decentralised model and promotion of a corporate identity.

## **Australian Taxation Office (ATO)**

### ***Interviews***

Interviews were held with senior managers in the National Office (the corporate centre) and in a Branch office. Those interviewed included the Commissioner of Taxation, the First Assistant Commissioner Corporate Services, the National Director, Employee Relations, the Deputy Commissioner in charge of a Branch ~~office~~ (the Bankstown Office) and the Human Resources Manager in ~~this~~ Branch Office.

### ***Introduction***

The ATO ~~has~~ undergone extensive organisational changes over the past decade. The former organisational structure of a large head office ~~and~~ 6/7 major offices in State capitals has been replaced by a smaller National Office and 24/25 regional or branch offices. The branch ~~offices~~ typically have 600-800 staff, are responsible for offering the full range of tax services and enjoy a large measure of independence from National Office. The emphasis in restructuring has been to move to a less bureaucratic and less hierarchical organisation with the aim of increasing efficiency and becoming more client-oriented.

The restructuring ~~has~~ been based on a fundamental change in methods of ~~tax~~ collection, involving a ~~shift~~ from a system of tax assessment by the tax office to self-assessment by ~~tax~~ payers, and a major investment in technology. Together these two changes have transformed the work of the ATO and its staff. ~~The~~ former functional organisation of work has been replaced by a structure of client-based ~~teams~~ and the organisation has worked hard to become more open and community-oriented. The front line of the ATO ~~is~~ now in much closer contact with the community.

Although managerial devolution has been an essential element in the organisational reforms, the need to increase efficiency has been just ~~as~~ important a consideration. The government provided an injection of funds for the new technology ~~and~~ new accommodation associated with physical decentralisation and for staff training. The ATO agreed to pay this back by savings of 3000 staff over 10 years, to be completed by 1999. By late 1993 the organisation had 17 000 staff and this will go down to about 16 000 by end 1994.

Changed working methods and the shift to a client focus imply a significant change in organisational culture. This is an ongoing process. The next step in the process ~~is~~ the development of team work, bringing together teams that can deal with a range of revenue lines ~~and~~ service customers on a single basis.

### ***Decentralisation of human resource management***

The management of the ATO are very clear that the organisational changes could not have implemented without the reforms in financial and human resource management across the public service as a whole. Although still governed by Public Service Act, the organisation has gained an enormous amount of freedom in respect of both financial matters and human resources.

There are, however, several areas where ATO management would welcome further freedom from central constraints. One is management of **SES** positions, where currently permission has to be sought from the Department of Finance for every **SES** position and is very difficult to get; there are also constraints on moving staff between technical and other **SES** positions. Another is pay, where the ATO would like greater flexibility to tailor pay arrangements to reflect its internal composition and to compete, when necessary, with salaries offered by private sector financial institutions. In non-recessionary times the organisation experiences some difficulty recruiting staff, although it tries to compensate for lower starting salaries by offering attractive career opportunities.

In some respects, the **APS** agreement on workplace bargaining is viewed as unduly constraining. An example cited was that the agreement provides for a 20 per cent reduction in absenteeism across the **APS**, without specifying how this is to be achieved or what level of reduction is expected from individual departments.

Some elements of the Public Service Act are felt to be inappropriate for the ATO, especially the position-based classification system. More generally, the necessity of adhering to core public service employment conditions is questioned in view of the fact that there is very little mobility between the ATO and other departments.

Management would like to be able to deal more effectively with poor performers. Although the revised inefficiency provisions introduced as part of the **APS** collective agreement in 1992 have improved matters, it is felt that managers need more discretion in this area.

### ***Devolution to line managers***

Devolution of **HRM** has been part of a more general process of devolution of corporate services which began in 1989, in line with policy throughout the **APS**. There has been progressive devolution of financial and **HR** functions to branch offices and line managers, with the aim of achieving better corporate outcomes. Those interviewed considered that there has been an enormous shift of responsibility to line managers. A 1993 evaluation of the devolution of corporate services within the Department found that all positions with managerial/supervisory responsibilities hold some personnel delegations.

The top management feel that the Department is going fundamentally in the right direction as far as devolution is concerned, although there is a learning process that is still going on and, as will be discussed below, some difficulties have been encountered. The key concern of those in National Office is the need to strike an acceptable balance between corporate control and managerial freedom; to ensure that necessary standards and consistency are combined with sufficient flexibility to meet local situations.

The perception from the corporate centre is that managers in branch offices are reasonably happy with the degree of flexibility that they have; this view was borne out by the branch manager interviewed. The above-mentioned 1993 review of devolution suggests that, if anything, line

managers feel they have too much rather than too little responsibility for HRM. This issue is taken up in the next section.

Branch offices are responsible for most aspects of HRM operations, within policy frameworks set by the corporate centre. An effort is made to involve line management in policy development so as to create a sense of ownership of the policies, while maintaining consistency across the organisation. Branches are responsible for their own recruitment, selection and development of staff, for performance appraisal, and for dealing with inefficient staff. Branches are free to decide how to allocate performance pay among their eligible staff and there is no moderation process at the corporate centre. Classification is also devolved although some classifications are Department-wide and cannot be changed. The flexibility of the running-cost budget system has not been devolved to branches (e.g. carry-over provisions; possibility of moving money between staff and other matters). The intention is to devolve this eventually, but not while there are tight budget constraints.

The Branch manager interviewed confirmed that she has a great deal of freedom with respect to HRM and has virtually no need to refer matters to National Office except where policy considerations or unusual circumstances arise. Within her branch HRM is further devolved to directors (heading groups responsible for the various programme areas). Such constraints as exist arise from service-wide policies rather than controls imposed by National Office; for example, although the Branch is responsible for recruitment (excluding base grade recruitment) this does not mean that managers can hire and fire freely; recruitment must be from within the APS and there are restrictions on disciplinary arrangements. However, the view taken by the Branch manager was that such limitations have to be kept in perspective in terms of the need to accommodate issues of access, equity, EEO, and industrial democracy.

The People and Structures Branch, which is part of the Corporate Services Programme in National Office, has retained responsibility for workforce planning, HRD policy, productivity advancement and employee relations (employee relations includes personnel policy, EEO, industrial relations, staff surveys; Occupational Health and Safety (OH&S), and family responsibilities and child care). Some of these activities are decentralised away from National Office (e.g. the national OH&S advisor is in Brisbane).

For purposes of negotiations with government about salary allocations, technical specialist positions in HRM have been established in regions (responsible for several branches) to advise at regional level and to provide a link between National Office and branch offices.

Despite devolution of HRM, the People and Structures Branch has decreased only slightly in size, from about 75 to 60 staff. Some of these staff have been posted out to the regions but still belong to National Office. The maintenance of staffing levels was explained in terms of new reporting arrangements and policy initiatives introduced by the government which have to be handled. The composition of National Office HR staff has changed; there are now fewer support staff and more policy advisers. The People and Structures Branch sees its role as policy development and providing support and consultancy to branch offices.

Branches normally have a HR manager and a HR unit. In all there are about 700 people dealing with HR in branch offices, and National Office networks with these on a regular basis in a variety of ways. Within the Branch office that was visited, there is an HRM manager plus two salary teams; these teams also provide other HRM services e.g. selections, conditions of service. There is also an EEO adviser and a high level HRM adviser. HRD was devolved within the Branch to each group;

however ~~this~~ arrangement is being reviewed in the light of a perceived need to provide a HRD policy focus for the Branch as a whole.

### *Use of HRM flexibilities*

From the National Office perspective, the areas where the ATO has made most use of increased flexibility have been devolution of HRM responsibilities to Branches and changes in job design and the classification structure. In the context of the restructuring of the Department, the flexibility provided by the Service-wide reform of the classification system has been very important, enabling a shift of emphasis from discrete tasks to holistic jobs and flexibility. The job design changes - broadbanding and multiskilling - have also improved career paths and people are used now to the more participative culture fostered by the changes and to being able to change the way jobs are done.

Although local practices and the preparedness of managers to exercise HRM delegations have varied from branch to branch, there is, overall, a perception that managers have failed to take full advantage of HRM flexibilities. The 1993 evaluation of the devolution of corporate services found that whereas managers have taken on financial responsibilities very readily, they have been less enthusiastic about HRM. This has been attributed to several factors: those interviewed felt it has been partly because managers have had to deal with staff reduction, a matter they would have preferred to have left to HRM specialists; another factor has been a lack of clarity on the part of managers as to where the bounds of their authority lie; there is also a perceived need to raise managerial competence to handle HRM; finally, managers feel they receive insufficient support in fulfilling their new roles.

The view was also expressed that finance is easier to devolve than HRM. An example cited was the changes in office structure, which required a review of the classification structure; because of the complexity of this there was a temptation to replicate the previous structure rather than to innovate. Managers also find difficulty in dealing with poor performers.

The difficulties in getting managers to embrace people management with more enthusiasm are viewed as teething troubles by corporate management, who accept that the process of cultural change which is necessary will take time to work through the Department. Performance agreements for are felt to be important instruments in bringing about cultural change.

In contrast to the picture given of the situation across the ATO as a whole, the experience in the Bankstown branch has been that line managers have accepted HRM responsibilities with enthusiasm. This would tend to bear out the assertion that the situation varies between branches. The 1993 evaluation also found that managers in newer offices, of which Bankstown is one, tended to accept devolution of HRM more readily than longer established offices.

The Bankstown branch has used its HRM flexibilities for a variety of purposes. Key initiatives have included flattening the managerial hierarchy and broadening the spans of control in order to work more effectively and to free up supervisors. In this context, work teams have been given the freedom to devise their own organisation, reflecting the policy of participative management in the branch. Extensive changes have been made in job design, with participation of staff and unions at every stage of the process.



### *Strategic integration of HRM with the goals and activities of the organisation*

The reorganisation of the ATO and the associated changes in working methods and organisational culture have involved a major focus on people. However, senior management in National Office feel that there is a risk of losing sight of why management of people is important in terms of the overall aims of the Department. As such, high priority is attached to improving the integration of HRM with the goals and strategies of the organisation.

The ATO has a "statement of purpose", a corporate plan and business plans. There is no separate HRM plan; HRM objectives and strategies are part of the corporate plan and are expressed in the context of broader corporate goals. Two of the **three** goals set out in the 1993-94 corporate plan have direct **implications** for HRM: these are performing jobs more effectively and satisfying government requirements. The stated corporate objectives in relation to performing jobs more effectively are to improve staff commitment against baselines established in 1993-94 and to improve productivity through strategic workplace reforms. The plan sets out detailed strategies for achieving these objectives. Improved staff commitment is to be pursued through encouragement of participative management and providing staff with a broad understanding of their rights, obligations, responsibilities and conditions of employment. Workplace reforms include, *inter alia*, developing a quality assurance approach across all programmes, developing skills and competence of staff, mobility, deployment of staff and workforce planning, and workplace bargaining. Strategies in relation to satisfying government requirements include improvement of health and safety of staff and promotion of equal opportunities.

The corporate plan forms the basis for business **plans** and includes key performance indicators for branches in relation to the stated strategies. 1993-94 is the first time the corporate plan has included such performance indicators and this reflects a much higher focus on achievement of desired outcomes. The plan was developed in consultation with the branches and is, also for the first time, integrated with budget allocations in the organisation. The key branch indicators will **be** reviewed after a year to see whether they are the right ones.

There is an increasing emphasis on developing quantitative performance indicators, including for **HRM**. For example, there are targets for implementation in branches of HRD plans and personal development plans, mobility placements and absenteeism, and an annual **staff** perception survey is used to register improvements by branch in staff Commitment to the ATO. Branch performance, including performance of **HRM**, is reported **back** to the Management Board of the ATO. This reporting **process** is to be developed further. The Management Board, comprising 28 Deputy commissioners, meets about 10 times a year.

Whereas the corporate planning and business planning processes are considered to be well integrated and, as just described, a strong effort is being made to integrate HRM more closely with corporate planning and strategies, the link between corporate planning and individual performance management is considered to be weak. In order to remedy this, the 1993-94 corporate plan is to be used **as** the basis for the content of managers' performance agreements. For senior managers in branches a "one fail all fail" performance review policy was introduced in 1993 to ensure that branches in a region co-operate in achieving desired corporate goals.

The **head** of the People and Structures Branch reports to the First Assistant Commissioner, Corporate Services, who in turn reports to the Commissioner. The head of People and Structures Branch also **has** direct access to the Commissioner if required and considers that HRM has fully sufficient access to the senior management structures of the Department.

### **HRM reform strategies**

The HRM reform strategies adopted in the ATO have been shaped by broader organisational objectives and by the need to comply with government requirements in areas such as EEO and OH&S. Crucial elements in reform strategies are managerial devolution, promotion of participative management, improving skills and competencies of staff, performance management, and realising productivity gains through reductions in staffing levels and workplace reforms. It has taken some time for HRM strategies to be clearly defined and articulated and there is an ongoing learning process.

**Devolution to line managers:** As noted earlier, corporate services, including HRM, have been progressively devolved to branches since 1989, with the aim of making business managers responsible and accountable for decisions which affect the performance of their groups. With hindsight, it is acknowledged that there was not sufficient recognition at the outset of the need to support devolution with a clearly understood framework for decision making, planned implementation including training and systems support, and processes for monitoring/auditing compliance with administrative law and procedures. These needs are now being addressed.

With regard to HRM the approach has been to devolve most functions to branch offices and to extend delegations widely to all managerial/supervisory positions. In practice, the experience has been that the extent of delegation to line managers and the preparedness of managers to exercise delegations has varied from branch to branch. The powers and responsibilities of managers are set out in a Statement of Managerial Responsibility and a variety of procedural handbooks, guides for managers and other material has been developed.

Although training was offered to managers from the start of the devolution process, the take-up of support and training was slow initially and the perception of National Office is that managers were not fully aware of the implications of their changing responsibilities. Subsequently there has been much more demand from managers. In order to target the training and development effort more sharply, the Statement of Responsibilities has been used as the basis for a highly focused management development programme - "Managing in the Nineties" - initiated in 1990. This covers the fundamentals of devolved financial and personnel management, as well as team leadership and management styles and techniques. Efforts are also being made to provide manuals and other support material for managers which are more simple and accessible.

An unresolved issue is the extent to which the corporate centre should continue to play a role in supporting and monitoring organisation-wide initiatives in HRM (and other domains). The 1993 evaluation of the devolution of corporate services revealed some concern among corporate services staff that many organisational initiatives (particularly in HRM) that are intended for implementation by branches and line management were not being followed through in the absence of a well defined role for the Corporate Services Group to support them.

**Participative management:** The encouragement of participative management is viewed as a key element in improving staff commitment to the ATO and thereby boosting performance. The Managing in the Nineties programme places strong emphasis on team leadership and participative management techniques. The organisation has also developed a leadership model, in which the management of people is a central element, to be used as the structure for managers' performance agreements. As part of the culture of participative management, the unions are involved at all levels of the organisation. The ATO has allocated \$1.5 million to establish a union research centre on office technology to provide independent advice to the unions.

**Improving skills and competencies:** As discussed above, a significant effort is being made to improve leadership and management skills in the ATO. Other aspects of training and development are also being addressed. In the context of a strategy for developing the overall quality of the services provided by ATO, training in quality and related issues is being developed and a Human Resource Development policy is being implemented. By mid-1994, all branches are required to have implemented an integrated HRD plan and a targeted 50 per cent of branch staff should have personal development plans in place. A core competency model has been developed and team, group and job-specific training programmes are being implemented. The manager of the Bankstown branch felt that there was a well developed culture of ongoing training in her office. Staff in the branch have an input into business plans, and business objectives, in combination with the competency model, are an important element in negotiating learning arrangements with staff.

**Performance management:** Performance agreements are the key element in the performance management system and are considered to be an important instrument for bringing about desired changes in organisational culture. The Deputy Commissioners have agreements with the Commissioner, and there are agreements on down the line to Senior Officer C level in National Office and to AS06 in branches. In the Bankstown branch, the agreements for the ASO grades are focused more on learning and skill development than performance objectives per se. Performance agreements provide a basis for performance appraisal for managers and for performance pay for the SES and Senior Officer grades. It is felt that these agreements, in combination with clearly defined business plans facilitate a more objective appraisal of managers' performance.

As noted earlier, there is a concern to forge closer links between corporate planning processes and corporate goals and the individual performance management system. With the linking of the corporate plan to the resource allocation process from 1993/94 and the inclusion in the plan of key branch performance indicators, managers in branches are very aware of the importance of performance management. The leadership model which has been developed provides the framework for managers' performance agreements including the following five components: people, today's business, planning for the future, contributing to corporate development, and external relations. This model, which reflects desired corporate values, is considered to be a key instrument in instilling these values throughout the organisation. The corporate plan is, from 1993/94 to be used as the basis for the content of performance agreements. In line with the emphasis in the corporate plan on developing skills and competencies, all performance agreements must include a personal development section.

Indicators of service/responsiveness, vis-a-vis both external and internal clients, are now being built into performance agreements and performance appraisal in the context of the ATO's overall strategy for quality.

Performance pay was introduced in 1993 for the SES and Senior Officer grades, as in the rest of the public service. ATO senior management are concerned that individual performance pay is inconsistent with the organisation's move towards team-based working arrangements. The emphasis on client satisfaction and total quality which form a central strand of corporate policy are team issues and the preference of ATO management would be to fold performance pay for Senior Officers into collective pay increases generated in the context of workplace bargaining. Already in the first round of performance pay many team leaders decided to split performance awards equally among the members of the teams. There is also concern as to how performance pay for the SES will mesh with workplace bargaining. As the SES are not covered by workplace bargaining, the concern is that a situation could arise whereby the organisation would not realise sufficient productivity gains to enable a pay increase

under the workplace bargaining arrangements, while at the same time the SES would be eligible for performance pay. Such a situation would be unacceptable to both management and staff,

The branch manager interviewed felt it was too early to make any judgement about the utility or otherwise of performance pay as a performance management tool. However, one lesson learned in the initial round of performance pay was that the content of managers' performance contracts would have to be made more consistent in the next round if they were to serve as a valid basis for performance pay decisions. Managers would also have to become more disciplined in setting contracts in terms of content and timing. For the SES, greater consistency was needed in performance pay award decisions across the Department.

**Workplace Reforms:** The ATO's strategy for improving corporate productivity involves a range of workplace reforms. Job design changes have been an extremely important element in organisational reforms over the past five years, enabling a fundamental reorganisation of how the work is done. For example, dedicated keyboard and data processing jobs have been eliminated, multiskilling is strongly encouraged and an increasing number of the organisation's services are provided by client-oriented teams. The 1993/94 corporate plan includes - in addition to the already mentioned development of a quality management approach across all of the organisation's programmes and measures to improve the skills and competence of staff - actions designed to improve the quality of internal services, to encourage mobility, and to develop and implement staff deployment plans and cross-group workforce planning processes. Two elements relating to the improvement of the quality of internal services that are of particular interest in the context of this report are the launching in 1994 of a study of ATO work practices, as the first step towards improving cross-functional co-operation; and the implementation from end 1993 of internal service agreements for corporate services, including the corporate HR function.

The negotiation of an ATO workplace agreement was underway at the time the interviews took place and this is seen as an additional vehicle for pushing forward desired workplace reforms. Mobility is being encouraged as a way of improving career development opportunities; a national mobility policy for the ATO is to be finalised as part of the workplace bargaining process and the corporate plan requires local mobility policies to be in place in all branches by June 1994. During 1993/94 each branch office is required to establish and implement deployment plans consistent with workforce planning needs.

**Staffing reductions:** An agreement was made with the unions to introduce the organisational reforms without industrial dispute. The agreement excluded compulsory redundancies, although it did not rule out the possibility of voluntary redundancies. Up to now staff savings have been achieved through attrition; no voluntary redundancies have been sought.

**Satisfying government requirements concerning EEO and OH&S:** The pursuit of equal employment opportunities and improved occupational health and safety is shaped by the requirements that apply across the public service. The 1993/94 corporate plan requires that all branch office business plans and staff performance agreements include EEO goals and strategies which address the membership in decision making and advisory bodies of EEO target groups, and the participation of these groups in training and development activities. Branches are required to report on improvements in these areas and in the representation of EEO target groups across the classification profile.

Strategies for improving OH&S include a review of rehabilitation and compensation processes; developing and implementing an OH&S agreement for the ATO; analysing and meeting OH&S needs of

the organisation; implementing OH&S education programmes; and implementing a national stress policy. Quantitative targets have been set for reducing workplace injuries and accidents and for case management of OH&S cases.

### *Impacts of HRM reforms*

Starting in 1987, the ATO has conducted an annual staff opinion survey designed to provide feedback on organisational strengths and weaknesses and to help plan improvements in the working environment. The survey covers job satisfaction and attitudes to work; opinions about supervisors and management of offices; perceptions on working as part of a group; skills development and training; future career plans; caring responsibilities; work environment/working conditions; and working priorities. This survey is used in the context of corporate planning to provide key branch performance indicators for measuring achievement of corporate objectives in a number of areas: improvements in staff commitment to the ATO; proportion of staff who believe they have the skills they need to perform their jobs effectively; awareness of internal dependencies in key work areas.

The other main source of information on the impacts of HRM reforms is the evaluation of devolution of corporate services in the ATO undertaken in 1992/93. This found that managers believe devolution has given them a real measure of power to make decisions over a wide range of issues, although many were dissatisfied with the support available to them and felt that new responsibilities had been thrust on them with insufficient preparation. Nevertheless, none wished to surrender their devolved powers. However, the evaluation also found that managers were generally more willing to accept financial delegations than HRM functions, with the latter often being seen as a distraction from "real" work. Managers in technical areas tended to be particularly uncomfortable with their new roles and with organisational change generally. The evaluation found an unconscious incompetence on the part of some managers, who assumed that their level of knowledge and practice was adequate when in fact it was not. This was particularly apparent in relation to EEO and OH&S.

The evaluation identified a clear need to enhance managerial accountability, both in principle and in practice and recommended actions to address this need. It also identified a need for simple guides and other support tools for managers to assist them in carrying out their new functions, and to maintain in the organisation a core of expertise in HRM and other areas that could be easily accessed by managers.

As noted earlier, there was some concern on the part of Corporate Services staff that organisation-wide initiatives in HRM which were intended for implementation by line managers were being neglected in the absence of a well defined role for Corporate Services Group to support and monitor them. There was also a concern that administrative records were becoming dispersed throughout the organisation and that this was making it difficult to obtain corporate information required to meet reporting requirements vis-a-vis external agencies and in monitoring performance at corporate level.

An effort is being made to establish more rigorous measurement of the costs and value added by internal services within the ATO, including HRM. A cost-benefit analysis of child-care provision within the ATO was undertaken in 1993 as a pilot effort in this area.

## Department of Social Security

### *Interviews*

Those interviewed included the Corporate Deputy Secretary in the National Administration and, in an *Area office* (the Sydney Central Office), the Area Manager, Manager of Corporate Services, Personnel Manager and Resources Manager.

### *Introduction*

The Department of Social Security (DSS) is responsible for delivering social security entitlements. It is the largest department in the public service; in 1992-93 it employed more than 22 000 staff (as stated in the Australian Public Service Statistical Bulletin 1992-93) in over 300 locations across Australia. The Department's organisational structure consists of: a National Administration in Canberra; 20 Area Offices; and an Australia-wide network of over 280 service delivery units (Regional Offices, District Offices, DSS Offices and TeleService Centres).

DSS has undergone major organisational changes since 1988/89 with the aim of transforming itself into a more outward-looking, client-oriented organisation. In order to achieve this shift to a client-focused culture and to deliver services more effectively the Department has moved from a structure based on six large State offices to 20 smaller Area Offices. There has also been a delayering of the organisational hierarchy, typically from 11 levels to 4 (public contact level; determining level; management level; senior management level), and a move to a greater programme focus. The Department has shed 1 600 staff through voluntary redundancies.

The organisational reforms met with strong resistance from staff and involved the longest strike in the history of the public service,

A reorganisation of the National Administration began in mid-1992 with the objective of strengthening the support provided to the Area office network and to reflect the changing role of the National Administration. Changes included, *inter alia*, a greater programme focus, the formation of a new Corporate Services Division, and more effective liaison between the National Administration and the Area network.

In line with its client focus, the aim of DSS is to have a single service delivery approach so that clients receive the same standard of service throughout the country. The structure of offices and the training provided to staff are identical regardless of location.

### *Decentralisation of human resource management*

DSS sees itself as having been in the vanguard of organisational reform in the public service. The reforms instituted service-wide are considered to have been well suited to the Department's operational environment and to have provided potential for significant improvements in efficiency and effectiveness. Decentralisation of HRM to departments is viewed as a major advantage that has enabled managers to take responsibility.

The most useful freedoms gained are considered to be greater control over appointments, terminations and decisions concerning staff numbers. In this context it was emphasised that decentralised financial management is an essential prerequisite for decentralised management of human resources.

Although generally satisfied with decentralisation, management in the National Administration identified some problems. There is a perception ~~that~~ the demarcation between the respective roles of the various central management agencies is unclear; dealing with special cases without the back-up service that was previously available from central agencies can be difficult; the advice function around Australia that used to be provided by the Public Service Board is especially ~~missed~~; placement of special category people between departments is problematic in a decentralised environment.

There is also a perception that some of the central constraints that remain on the freedoms of departments are problematic. Mentioned in this context were: that the requirement to draw on a list of people who have passed the public service entrance examination for recruitment ~~can make~~ it difficult to recruit for some remote areas; and that overall classification levels which apply across the public service can cause problems in the sense that if one department reclassifies a particular function this can create pressures for other departments. It is felt that with the decentralised management environment the case for separate, departmental employment categories needs to be examined.

### *Devolution to line managers*

Under the Social Security Act 1991 the Secretary of the Department delegated his powers in relation to administration and service delivery to designated officers in the National Administration, Area and Regional Offices. To ensure consistency in decision making, national guidelines are issued. The policy of DSS is to devolve as much responsibility as possible to the lowest level of management.

Reflecting this policy, the centralised HR function in the National Administration ~~has~~ altered significantly. National Administration ~~has~~ taken on a major co-ordinating role for HR services and providing ~~both~~ general and specialist advice, national policy development and update and support to devolved Divisional and Area personnel units. There is also a training service for personnel staff in Area Offices. The only operational function retained is to look after the 1 600 staff in the National Administration. HR services are delivered through units in each Area administration.

Personnel services conferences are held in Canberra each year to enable HR practitioners from the Area Offices and the National Administration to meet to discuss departmental HR goals, exchange ideas and debate topical issues. A working party ensures that issues ~~raised~~ in this forum are followed through.

Those interviewed in the Sydney Central Area Office confirmed this picture of a ~~highly~~ devolved HRM system. The office controls all its HRM operations and very few matters have to be referred to National Administration. Reporting to National Administration is mainly via statistics and information, with National Administration, in turn, keeping Area Offices informed of policy changes. The first round of workplace bargaining, in 1993, was ~~handled~~ at the level of the National Administration, but people from each Area Office were involved in working groups and negotiating groups.

Area Offices are allocated their own running-cost budgets linked to a nationally devised staffing model. They can, ~~within~~ their budgets, decide ~~their~~ establishment structure at the lower levels. The view of those interviewed in the Sydney Central Office is that the budget constraint imposes a discipline

on managers to ensure that classifications are no higher than necessary to get the work done. Area Offices can switch money between salaries and other administrative items, but need permission from National Administration to do this.

The Area Offices have, in turn, devolved a substantial amount of responsibility for HRM to Regional Offices. Prior to devolution the HR function in the Sydney State Office was 140 people; the average now is 15 HR people per Area Office. As a result, the function has changed from a focus on process to a client orientation vis-a-vis management and HR practitioners in the Regional Offices. Each regional office has a single person responsible for HRM. Responsibility for managing staff and budget and for training staff is delegated to section managers within the Regional Offices. Co-ordination of recruitment activity is usually centralised in Area Offices and Divisions but section managers are involved in the planning and interview phases of the selection process.

The constraints on flexibility that are perceived by Area Office managers result from regulations and procedures applying across the public service rather than from controls applied by the Department's National Administration. Inefficiency procedures are perceived as inflexible in terms of the length of the processes that must be undertaken to assess an officer's efficiency even in cases of clear underperformance; the processes have to be managed very carefully and are resource intensive. Those interviewed felt there was a need to adjust the balance between maintaining people's rights and streamlining inefficiency procedures. Staffing is also viewed as somewhat inflexible insofar as staff are normally permanently appointed to the Australian Public Service. Temporary employees acquire a continuing employee status after twelve months continuous service. In a department such as DSS where staffing needs can fluctuate rapidly due to changing client numbers, there is a problem reducing staffing levels when the number of clients declines. The Department is able to hire temporary staff relatively quickly when required as most Areas maintain rosters of available people cleared for recruitment.

### *Use of HRM flexibilities*

The main use made of increased HRM flexibility to date has been the devolution of responsibility for most HRM matters to Area and Regional Offices discussed above, and the associated reduction in the number of management levels in the Department. The organisational changes have been underpinned by a strong emphasis on communication of objectives and priorities down through the organisation and setting performance targets for Regional Offices. As will be discussed in subsequent sections of this report, there is still some way to go in achieving the desired level of strategic integration between corporate goals and priorities, programme planning and business planning, and with linking the management of people to these processes. It is only very recently that the performance management system has begun to incorporate elements of individual performance management.

The development of the Area and Regional office network has involved flattening of organisational structures, with fewer jobs at higher levels in Area Offices. There has also been redesign of jobs, particularly at management and supervisory levels, to take account of the new organisational structure. The move to a client service focus has necessitated changes in working methods and job design for staff at the interface with the public; most recently the development of TeleService centres has led to job redesign for the staff concerned. The organisational changes in DSS, allied with the development of more flexible, office-based classification structures throughout the public service, have expanded opportunities for job rotation and exchanges.



The other main area of focus has been on developing training and development programmes that are tailored to the particular needs of DSS. This is discussed further in the section on Reform Strategies, below.

Other than the areas mentioned above, neither the Department as a whole nor the Area Office examined have used the flexibilities gained to make any other major changes or to develop new HRM policies and practices that diverge from what existed previously. The substantial reorganisation of the Department, which was still ongoing in 1993, and the associated relocation of staff, along with the quite fundamental change in organisation culture implied by the development of a client focus, have clearly absorbed the bulk of management's time and energy up to now, leaving little room for other initiatives.

The view taken by the Area Office managers interviewed is that they are still on a learning curve, especially as the funding model for offices is still being refined, and until funding arrangements settle down it is difficult for managers to take full advantage of the flexibility provided by decentralisation and devolution. Moreover, managers feel that it is too demanding to diverge very far from the operating framework set by performance agreements and accountability systems. A further constraint as far as office structures are concerned is that the managerial delegations under the Social Security Act are to specific levels and this influences how offices can be structured.

Nevertheless it was felt that areas such as staff development and performance management were being handled more effectively now that managers had assumed financial responsibility because they could no longer afford to carry poor performers. Moreover, the development of expert support groups in National Administration was important in helping managers to come to grips with their new role.

The introduction of workplace bargaining is seen as offering potential for changes in a number of areas, for example: more flexible working hours; enhancing the quality and provision of training; introduction of an advancement programme for some ASO grades based on the attainment and application of competencies designed to enhance service delivery; review of how job redesign provisions could be applied. A further example of areas for potential changes is selection initiatives. One Area of the Department has developed a modified selection process which complies with the relevant legislation and guidelines but which reduces selection times considerably. It involves less stress for applicants and allows for more feedback from supervisors to staff.

### *Strategic integration of HRM with goals and activities of the organisation*

DSS assigns a high priority to corporate and strategic planning. It has a ten-year Strategic Plan covering the period 1990-2000, which represents its view of future service delivery directions and outlines its global aims and priorities. The Plan is updated annually and tri-annually on a rolling basis. Lower level planning, in the form of programme and business plans, is less well developed. A programme planning model is currently under development with the aim of defining programme priorities for managers on the basis of objectives identified in national plans, and bringing together planning and reporting arrangements in a coherent and integrated manner. There is also an acknowledged need to improve the integration of business plans at the area and regional levels with higher level plans. In 1993 training was introduced for managers to assist them to develop business plans directed towards the achievement of programme objectives.

The Department has a series of management committees whose role is to ensure the effective management of DSS programmes in line with corporate objectives. The Corporate Management

Committee plays a crucial role in this context in recommending resource allocations and assessing progress towards meeting corporate objectives. Programme management groups oversee the management of the Department's six programmes, including corporate services. Each Area has its own Corporate Management Group, responsible for resourcing and service delivery strategies; at the Regional Office level, Regional Management Teams are responsible for addressing management and operational issues which affect service delivery.

HRM objectives and actions are included in the DSS Strategic Plan; HRM elements for implementation in 1992-93 included: introduction of mobility arrangements for middle managers; introduction of performance appraisal for Senior Officer grades in the context of the service-wide introduction of performance pay for these grades; completion of the filling of revised classifications at management levels in Area and Regional Offices; strengthening of management training; refinements to the level and quality of public contact training; encouragement of staff awareness of health and fitness; and a broad-ranging survey of 4 000 staff. There is no separate HRM plan, although, as will be discussed presently, work is underway to provide a strategic framework specifically for HRM activities.

Although there appears to be quite effective integration between training and development activities and corporate goals and priorities, the integration of HRM generally with the goals and management strategies of the Department is weak. This is partly a function of the above-mentioned shortcomings in the programme and business planning systems; however, it also reflects the assignment of a relatively low profile to HRM in the overall planning and management structures of the Department. In the National Administration the HR function comes under the Industrial Relations and Personnel Branch of the Resource Management Division. The head of the Resource Management Division reports to the Corporate Deputy Secretary. The HR function is thus four levels down in the corporate hierarchy. In terms of the national committee structure, management of people comes under the Corporate Management Committee and the Programme Management Group for corporate services. However, neither of these bodies appears currently to accord much attention to HRM issues.

The absence of a strong strategic focus for HRM is a matter of some concern for the Department and a personnel management programme is being developed to provide a strategic framework for all personnel management activities. A Strategic Personnel Management Group was established in early 1993, with members from Area Offices and the National Administration. The Group is intended to provide a forum for strategic planning, development of major initiatives, problem solving and regular consultation between the Areas and the National Administration.

### ***Reform strategies***

As will be evident from the foregoing discussion, HRM reforms in DSS have focused primarily on devolution to line management in the context of the major organisational restructuring which has occurred, and on associated training and development activities.

***Devolution to line management:*** Managerial devolution was carried out in three stages, of which the final stage was still in progress in 1993. The first stage involved the gradual breaking down of state offices into area offices; the second stage involved abolishing most of the state office network but leaving a few residual functions centralised at state level; the final stage is the removal of all state-level functions and the disappearance of state offices.

There was a well worked out strategy for the development of the Area and Regional office network and for the devolution of HRM responsibilities to these offices. A model ~~was~~ developed for these offices which clearly defined what responsibilities would be devolved and how they should be assigned within offices. This model set out the responsibilities of both line managers and specialised personnel staff for HRM functions.

**An** extensive training package for managers was implemented and skill requirements identified. Preparation of training material was centralised, with area managers responsible for implementing broad guidelines. The National Administration provides guidelines and support systems to managers in Area Offices.

**Training and development:** Training and development activities are directed in a structured way towards increasing the skills and competencies **needed** by staff to perform their jobs effectively. **DSS** is pursuing its training and development objectives in the context of the establishment of competency-based training in Australian industry. **An** annual Training and Staff Development Plan sets out priorities.

The main priorities in **1992-93** were to develop and deliver competency-based training programmes on technical matters for staff in Regional Offices; to introduce competency needs analysis in supervision and management; to introduce competency-based structured training and staff development programmes in supervision and management for staff in all areas of **the** Department; to develop and deliver training in social security entitlements; to deliver public contact training.

**Performance management:** **DSS** has a well developed performance management system at the Regional Office level. Performance targets are set in connection with resourcing agreements and offices are required to provide detailed information on performance. Performance improvement plans provide a basis for setting objectives for Area and Regional offices. Area Offices undertake structured visiting programmes to Regional Offices to assess their performance and subsequently to provide feedback to regional managers. Formal evaluation of the performance of Regional Office managers against targets set for the offices, carried out by Area Office Managers, was built into the devolution process ~~at~~ the outset. Regional office managers monitor performance down to section level, but not individual level. Friendly competition between sections and offices on performance against set standards is encouraged and is reinforced by providing managers with performance information on all offices.

In **1992-93** the Department developed and published, for the first time, a **number** of standards for client service delivery. Reports on performance against standards are intended to help staff to identify and resolve problems **and** to focus on measures to improve performance.

As noted earlier the linkages upwards between performance management at Area and Regional levels and business and programme planning levels are not yet well established. The linkage downward between office performance and management of the performance of individuals is well established in the case of heads of Regional Offices, but not for managers generally. Individual performance agreements for Senior Officers were only introduced in **1993** as a requirement for the introduction of performance pay for these grades. Training was provided in appraisal, including linking appraisal to corporate objectives. There is no formal appraisal of individual performance below Senior Officer level but all supervisors are encouraged to give feedback on performance. However, those interviewed in the Area Office felt that the issue of staff knowing what **is** expected of them is not yet well addressed and has to be worked on. Appraisal for SES officers ~~was~~ introduced in **1993** as part of the performance pay arrangements.

DSS, like other departments, introduced performance pay for the SES and the Senior Officer grades in 1993. The view of the Corporate Deputy Secretary is that linking appraisal to pay poses significant problems, mainly because the arrangements do not allow the flexibility to recognise differences in skills and experience of staff. There is also an issue of staff in the Department comparing themselves to staff in other departments. Area managers felt that linking appraisal to pay raises issues of subjectivity. In the event, all Senior Officers received performance pay at between 40% and 60% of the maximum permissible payment.

Despite the misgivings expressed, those interviewed felt that the link to pay is necessary to give meaning to performance appraisal. However, the Department has not yet made a decision on whether performance pay for Senior Officers should be rolled into a Workplace Bargaining Agreement.

DSS sought to introduce some standardisation into the management of performance pay by requiring Area Offices to submit a sample of performance agreements to National Administration, where a moderation process was undertaken.

**Industrial Democracy/Participative management:** The Public Service Act legislates for industrial democracy and participative management and this has been developed in the Department. The DSS industrial democracy plan is intended to facilitate the making of decisions at the lowest possible level, in line with the principles underlying the devolution process. There are consultative committees at national and Area levels. All regions have regional management teams whose membership includes senior managers and workplace delegates. These teams meet at least fortnightly and provide the main forum for staff to contribute to decisions concerning their daily work environment. This is considered to facilitate dissemination of information about decision processes, to give a sense of ownership of outcomes and to contribute to morale and productivity.

**Workplace bargaining:** Negotiations under the workplace bargaining provisions had not yet concluded when the interviews took place. The productivity initiatives proposed for inclusion in a workplace agreement were drawn mainly from ideas of staff in Area and Regional Offices. Matters under negotiation included changing working hours to maximise flexibility and productivity; enhancing the quality and provision of training; introducing an advancement programme for administrative staff based on the attainment and application of competencies designed to enhance service delivery provided by counter staff; establishing a joint working party to review the application of job redesign provisions; reducing overpayments and fraud by implementing a debt management performance improvement strategy; and streamlining procedures and operations by further rationalising the Department's computer operations.

Workplace bargaining was welcomed by the managers interviewed in the Area Office; however, they had experienced difficulty in getting staff interested and in reaching agreement. The feeling was that momentum had been lost after an initial enthusiasm. Nevertheless, workplace bargaining was generating good developments for the Area Office, although some of these developments would have been pursued in any case as they make good management sense.

**Equal Employment Opportunity:** In line with public service requirements DSS has developed an EEO programme, under the responsibility of the Corporate Deputy Secretary. Progress on EEO is reported quarterly to the Minister for Social Security.

### *Impacts of HRM reforms*

The main information on impacts relates to devolution, where the implementation process was monitored closely. Reports submitted by the different State social security administrations in 1989 indicated that, in general, devolution was going according to plan and that the new Area Offices welcomed the greater managerial control they had gained. Devolution was felt to have added significantly to operational efficiency and to have brought a clearer understanding of the Department's objectives and functions.

Training was identified as the one of the greatest tasks faced by the new Area organisations. At the time of devolution there were insufficient staff to fill all the specialist jobs in the Area offices and expertise had to be trained up rapidly. The shortage of qualified specialists in areas such as financial and HR management slowed the devolution process somewhat, but this problem has now been overcome for the most part. Some Areas experienced problems of increased turnover of specialist staff once the initial enthusiasm about devolution had waned, and had difficulty in finding qualified replacements.

There was some concern expressed in the 1989 reports on implementation that flatter organisational structures had diminished career opportunities, although there were greater opportunities for diversification of tasks and job rotation. Nevertheless, it was felt that increased attention would need to be given to staff development to avoid a build-up of dissatisfaction over perceived slower advancement opportunities. The need for attitudinal change on the part of staff so as to take advantage of the opportunities for job rotation and exchanges was also highlighted.

Devolution has brought a need for better management information systems; in the view of the Corporate Deputy Secretary this need has not yet been fully addressed because it has had to be given lower priority than developments affecting the core business of the Department.

In the absence of a well developed HR management information system in National Administration, the Department is only able to carry out patchy monitoring of what is happening in the Areas. EEO is monitored quarterly and there is selective monitoring of promotions and training. The staff selection process and overall management of offices are evaluated through annual staff attitude surveys addressing both specific HRM issues and attitudes concerning the working environment, training and other matters.

The managers interviewed in the Area Office felt that devolution had greatly improved the effectiveness of service delivery and strengthened the link between responsibility and accountability. Their view was that devolution was now well accepted by staff. The accompaniment of devolution by the imposition of clear service standards was felt to have been crucial in building a focus by staff on their contributions to the work of the office, a perception of the purpose of jobs and job satisfaction. The continuing need for a substantial effort in staff development was emphasised.

Concerning performance management, the experience of the Area Office managers had been that the majority of staff liked performance appraisal but not performance pay. There was cynicism about performance pay, mainly because of perceived subjectivity of the appraisal process.



## HUMAN RESOURCE MANAGEMENT REFORMS IN THE CANADIAN PUBLIC SERVICE

by Otto Brodtrick

### Introduction

Modern public management reform in Canada dates back to the 1960s. Since that time, the government has undertaken a number of initiatives to reform, modernise and revitalise its national public service. These initiatives were typically started at times when the public service was seen as out of touch with government or public expectations regarding services or accountability, or when fiscal difficulties demanded cost savings. In addition to major reform initiatives, numerous smaller efforts by individual agencies have periodically prompted the public service to examine its policies and procedures, or to make attempts to streamline operations.

Reform agendas based on a measure of "pain" or "dissatisfaction" with existing systems were often targeted at improving efficiency and effectiveness of operations or updating system to meet new demands in technology or the labour force. Occasionally the aims were to ensure frugality and economy of operations, or even ensure that public servants did not enjoy elements of personal comfort or advantage that are not also available to members of the general public. For example, air conditioned offices and cars fell into this category for a long time, as does business class air travel even today.

The current reform agenda in Canada, however, is premised on a different set of priorities. Reforms are being driven by a desperate lack of funds caused by severe economic difficulties, combined with public demand for smaller government, better quality services and lower taxes. The government's aims in reforming the public sector are to clarify federal roles and responsibilities and reduce costly overlap and duplication, ensure that resources are devoted to the highest priorities, respond to the public demand for better and more accessible government and achieve more affordable government. The method for meeting those aims is through program reviews, and restructuring of the workplace and the methods of carrying out the work, with primary attention given to reducing costs and doing more with fewer resources. As this is expected to have major effects on the public sector workforce, specific tools for workforce adjustments have been put in place to provide managers with more flexibility in periods of downsizing while providing options to employees who face job loss. This appears to be the extent of the attention given to human resource strategies in the current reform programme. The challenge for managers and executives in departments and agencies has been to meet the demands of restructuring and cost cutting, while maintaining morale and productivity in their workforce. The results of such challenge is an enormous burst of innovation in some areas of the public service and struggle and morale problems in others.

This review of public management reform in Canada describes and analyses developments particularly as they relate to human resource management (HRM) strategies in the Canadian public

service as they have evolved since the 1960s. Two mini-case examples drawn from line-departments, Human Resource Development Canada and Public Works and Government Services, offer insights into the effect of the current series of management reforms on agency operations and people management, as well as the variety of tensions and questions that need to be addressed as the reforms progress. Interviews with senior individuals from across the public service lend additional perspectives on the effects of the current reform environment on human resource management and, in particular, on issues such as workforce morale, performance management and, ultimately, the ability of the public sector to continue to attract and retain a quality workforce.

### *How the Canadian public service is organised and managed*

The Government of Canada operates under a Parliamentary Democracy with a Governor General representing the sovereign, but to all intents and purposes acting independently. It has the classical division of powers: the Legislature, the Judiciary and the Executive branches. The Legislature comprises the House of Commons with elected members, and the Senate with appointed members. The Executive, i.e. the Government, is normally formed by the largest party in the House of Commons. The leader of that party becomes the Prime Minister, who selects Cabinet members from the Members of Parliament. Each Minister has the management of one or more Departments and is accountable for the Department's actions and outputs. The Canadian public service is based on the "Westminster" model, which includes the obligation of government to answer for its actions to the people's selected representatives.

At the career public service level, each Department is headed by a senior career public servant (non-political), the Deputy Minister. The collectivity of departments comprises the bulk of the federal public service which at present numbers approximately 200 000 employees (excluding the military and public enterprises known as "crown corporations"). The public service is permanent and politically neutral. That is to say, it is independent of the political party in power and governed by its own legislation, including the Public Service Employment Act. Major legislation concerning the public service was passed in 1918, 1961 and 1992. The underlying guiding principle of the various public service acts has remained the same – to create and preserve the merit system of appointment and promotion under the control of an independent commission responsible only to Parliament (currently, the Public Service Commission).

Three central agencies have the primary hand in guiding and directing the public service: the Privy Council Office, the Treasury Board Secretariat and the Public Service Commission. The Privy Council Office advises the Prime Minister and Cabinet on overall workforce strategies and the structure of the public service. The Treasury Board is a committee of Ministers which is mandated by law as the "employer" responsible for pay and classification, and for the collective bargaining process in the public service (advised by the Treasury Board Secretariat). The Public Service Commission serves as the staffing and training agency of Parliament for the public service. Its task is to ensure that the public service is staffed with well qualified personnel based on a merit system of selection and promotion.

#### *Privy Council Office*

The Privy Council Office (PCO) is the Prime Minister's own "Department", headed by the Clerk of the Privy Council, who is also the Secretary to Cabinet and the most senior public servant. The PCO provides public service support to the Prime Minister. Its function is to facilitate the smooth and



effective operation of the Government of Canada, including the public service. Recently, with the proclamation of the Public Service Reform Act in April 1993, the Clerk of the Privy Council assumed formal responsibility as head of the Public Service.'

At the PCO, one of the Deputy Secretaries to Cabinet is in charge of "Machinery of Government and Senior Personnel" and, as such, is the principal officer who looks after structural, organisational and senior personnel issues for the public service. For example, the 1993 restructuring of government and the public service (mentioned elsewhere in this case study) was developed and designed in the PCO. Similarly, appointments to the most senior positions are prepared by the PCO for decision and announcement by the Prime Minister.

### *Treasury Board Secretariat*

The Treasury Board is a Cabinet Committee formed by six Ministers, one of which is the Resident of the Treasury Board and another the Minister of Finance. The Treasury Board is the general manager and legal "employer" of the public service.\* In this function, it sets conditions of employment and makes policy regarding pay and benefits, including rules of work, incentives, leaves, vacation, pension and retirement programmes. The Treasury Board, with input from departments, also conducts the collective bargaining process with public service unions, and develops special programmes for the public service (e.g., workforce adjustment mechanisms to facilitate staffing reductions).

The administrative arm of the Treasury Board is the Treasury Board Secretariat, headed by the Secretary of the Treasury Board and Comptroller General of Canada. It operates under the broad legal authority of the Financial Administration Act. The Secretariat is responsible for providing advice to the Treasury Board on policies, directives, regulations and programme expenditure proposals with respect to the management of the government's financial, human and material resources. In this role, it is concerned with initiatives, issues and activities that can cut across all policy sectors of the government.

### *Public Service Commission*

Where the Privy Council Office and the Treasury Board Secretariat are agencies of the Executive branch of Government, the Public Service Commission (PSC) is an agency of the Parliament. It was set up to ensure that appointments to and promotions within the public service are based on merit, rather than on other attributes such as, for example, special relations with officials in government. The PSC is also mandated as the central personnel agency responsible for delivering training and development programmes across the public service.

In support of merit-based staffing systems, the PSC seeks to maintain the values of fairness, equity and transparency in those systems. Thus, under the guidance of the PSC, it is expected that staffing decisions in the public service are made objectively and free from patronage; that staffing practices are based on equal access to employment opportunities, that they are free from systemic and attitudinal barriers; and that communications between managers and employees about staffing practices and decisions are open. In practice, while PSC is entrusted with the task of ensuring merit in staffing, much of this trust is decentralised and delegated to deputy ministers through the use of Staffing Delegation and Accountability Agreements. However, some perception problems remain. For example, in 1988 a survey of senior managers in the Canadian Public Service found that 75 per

cent of them did not believe staffing and promotion in management positions was based on merit.<sup>3</sup> Better management of the staffing process is an issue of culture and accountability on the level of the department or agency where the individual hiring transactions take place. Accordingly, the PSC's role is gradually evolving away from attention to individual staffing actions, and toward general oversight and a more strategic policy-oriented focus on achieving a highly competent public service, both through staffing and development.<sup>4</sup>

### ***Other agencies***

Two other agencies also substantively effect public service management policies and practices, notably the Office of the Commissioner of Official Languages and the Office of the Auditor General of Canada. Both agencies report to Parliament, but do their work in government and the public service. The Commissioner of Official Languages reports annually on the extent to which both official languages of government (French and English) are used in the public sector, and whether the government and the public service serve the public in the bilingual form prescribed by the Official Languages Act.

The Auditor General audits government operations and provides information designed to help Parliament hold government to account for its stewardship of public monies. In addition to auditing financial statements, the Auditor General also examines how well the government manages its operations. On occasion, this results in critical remarks by the Auditor General about the public service and the state of public management, and in some tension between his Office and public service managers. In this sense, the Auditor General is considered to have the ability to influence the management of the public service.

### **Historical perspective on modern public service reform initiatives**

The first, and perhaps the most thorough, of the modern reform initiatives was undertaken in the 1960s by the Royal Commission on Government Organisation, commonly referred to as the Glassco Commission.<sup>5</sup> It reported through multi-volume reports, but is remembered best by a one-sentence summary of its recommendations: "Let the managers manage!"

**This advice was** based on the Commission's findings that public service managers were *stifled by* multitudes of the most detailed regulations. These regulations had been developed over the decades in order to ensure prudence, probity and frugality in every activity of the public service, because it used taxpayers' money to carry out those activities. We have from that period the proverbial anecdotes of the public servant who would be refused a new pencil if unable to produce the **stub** of the old one, where every additional telephone had to be approved by the Treasury Board, and every salary increase from the top civil servant to the lowest-level clerk approved by the then Civil Service Commission. As a result of the Glassco Commission's work, some controls were relaxed and there was a general house cleaning of absurdities in the public service rule books. There was also a minor shift in orientation toward programmes and what was needed to operate them effectively, rather than the almost exclusive focus on inputs such **as** salaries and supplies. It seemed, however, that the trend toward relaxing controls was thought to have gone too far. In the **mid-1970's**, the Auditor General reported that Parliament was close to losing control over the public purse **and** the Government again began *to* apply more stringent controls on the public service and public servants.

Central agencies such as the Privy Council and the Treasury Board, as well as political and career executives, were clearly concerned that the Canadian Public Service should work well, and be a competent and efficient tool for government to serve citizens. Yet, the reports issued in the late 1970s, including those from the Auditor General of Canada and the D'Avignon Committee showed that there were vast areas that needed improvement.<sup>6</sup> The Auditor General's report offered a statement that indicated the frustration reformers often experience when attempting to reform a large, complex organisation: "Why do serious managerial weaknesses persist, even after years of conscientious efforts to overcome them?"

During the same period, another Royal Commission, known as the Lambert Commission, examined the accountability relationships in the public service.<sup>7</sup> It found that accountability relationships did, indeed, need to be strengthened because managers did not adequately account for their actions. Moreover, managers were not held to account effectively by their superiors.

The 1980 Auditor General's report repeated the question, and in answer discussed the lack of incentives to manage effectively. The report suggested that there was a need for a good understanding of the underlying causes of the deficiencies. It further stated that there needed to be the desire, the commitment and the will to create an environment in which public service managers could achieve value for money to the extent possible. This was perhaps an early recognition that the "soft" elements of organisations -- people's values, motivation and commitment -- are as important as the hard elements such as structures, rules and controls.

In 1983, the Auditor General published a study as part of the annual report which concluded that there were too many constraints to productive management in the public service. The report suggested that constraints and disincentives to good management should be reduced, and that experiments to try and improve public service performance should be increased. The suggestion to rely less on rules and regulations and more on the people who apply them was, for the most part, received positively in government and the public service.

A common attribute of most review and reform initiatives to date had been that the reviewers and experts were drawn from outside government and the public service, an approach which was viewed with cynicism by some public servants. The next -- and most recent -- major reform effort was structured differently. Announced as "Public Service 2000" (PS 2000), this effort was done "by the public service for the public service." The analysis of the situations facing the public service and recommendations for reform were based on the results of task forces staffed primarily by Deputy Ministers.

PS 2000 was announced by the Prime Minister in December 1989. He explained that the purpose of the initiative was to renew and prepare for the 21st Century by taking the steps necessary to foster a public service that is professional, highly qualified, non-partisan and imbued with a mission of service to the public; that recognises its employees as assets to be valued and developed; that places as much authority as possible in the hands of front line employees and managers; and that provides scope for different organisational forms to meet differing needs, but in the context of a single Public Service.<sup>8</sup>

More specifically, statements by the Prime Minister's office provided that:

- the government's employment and personnel management regime will be made less complicated and burdensome for managers and employees alike;

- central administrative controls will be reduced so as to give Deputy Ministers greater freedom to manage their departments and clearer accountability for results;
- the roles of central agencies and of systems of personnel and administrative control throughout the government will be clarified and simplified; and
- innovative ways to encourage efficiency and improve programme delivery will be developed.'

In communiqués and policy documents describing the PS 2000 initiative, emphasis was placed on decentralisation and devolution of management authority to facilitate better management of programmes and people, as well as spur innovation and efficiency in programme delivery. For example, it was stated that Deputy Ministers would be given the greatest possible freedom to act in managing their departments, including:

- reducing, clarifying and simplifying the number of central controls;
- clearly distinguishing between the roles of the Treasury Board as the employer and of the Public Service Commission as the Parliament's agency in preserving a non-partisan, professional Public Service;
- providing systems to assist public servants in building satisfying careers within the Public Service, while at the same time facilitating the dismissal from the Public Service for unsatisfactory performance; and
- examining new, more efficient ways of programme delivery and other measures to cut costs and improve the working environment. For example, allowing savings to be carried forward into the next fiscal year, and providing as much autonomy as possible in the efficient management of particular services."

In assessing the evolution of HRM reforms, it is worth noting that the issue of people and how they are to be viewed and "managed" in the public service of the future are central to this policy announcement. Management of the human resource, and reforms of that management, were a critical part of PS 2000. This emphasis was reinforced by various task forces that were formed as part of implementing PS 2000. One of them was entitled the "Task Force on Workforce Adaptiveness", which reported on its work approximately one year after the Prime Minister's announcement. The Task Force concluded that the public service needed to make efforts to attract, develop and retain adaptive people. It said that,

"to revitalise the public service, we have to recruit the right kind of people ... Adaptive people should be everywhere in the organisation, not only at senior levels. They should demonstrate versatility, open-mindedness, unconventionality, risk-orientation, creativity and opportunity-focus versus problem-focus.""

The recommendations of the Task Force on Workforce Adaptiveness went far beyond the traditional view of a public service as being rule-bound, risk-averse, defensive, and steeped in command-and-control mindedness. Although little came of the recommendations at the time, they went a long way to lay the foundations for a promising path for the future of HRM reforms in the Canadian public service.

Arising out of the PS 2000 initiative, the government introduced the Public Service Reform Act, which was proclaimed into law in April 1993. It was the first major overhaul of legislation dealing with the management of the public service in more than 25 years. One of its main features focused on increasing staffing flexibility by conferring authority on Deputy Ministers to move employees, with their consent, from one job to another at the same level and pay without a lengthy process of competition. Senior management considered that these improvements in the ability to manage and respond more flexibly led to a better functioning personnel system and public service.<sup>12</sup>

At the end of 1992, the Government issued an economic statement to control the deficit. The terms of the statement reduced operating costs for all departments by three per cent and froze the salaries of public servants for two years. This followed previous two-year legislated wage increases of zero and three per cent. In the February 1994 budget, the government announced a further two-year extension of the salary freeze, as well as the suspension of salary increments and performance pay for a two-year period. Performance pay was already suspended since 1991. Predictably, these years of freezes on pay and bonuses have had a noticeable (negative) impact in further reducing the already low morale in the public service.<sup>13</sup> In addition, there were major public sector strikes in the early 1990s which took a large toll on morale. The actions set in motion in the 1992 statement set the stage for the demise of many of the expectations raised in the public sector by PS 2000.

In June 1993, a new Prime Minister took office and announced the most significant downsizing and restructuring of government ever undertaken in Canada. The Prime Minister said, "Canadians are asking government to do more with less, just as Canadians have had to do in their own families and businesses." The total number of Departments was reduced from 32 to 23, and the number of Ministers was cut from 35 to 25. She reported that, "Departments will be combined into larger, more sensible units in which administrative costs can be reduced..." During an ensuing election campaign, the Prime Minister said that through such restructuring, the government would save billions of dollars.<sup>14</sup>

In addition to reducing the number of Departments, eight Departments were substantially redesigned or newly created, and fifteen were merged or abolished. Some of the new Departments were very large, employing more than 20000 people. Such Departments are often referred to as "mega-departments". All departments were asked to submit plans for administrative streamlining, and many thousands of public servants were directly or indirectly affected by subsequent downsizing and restructuring activities.

As part of the budget decisions in February 1995 by a new Government, the Minister of Finance announced a further major downsizing of the public service:

"In the last recession every household, every business, every volunteer group in this country was forced to face up to hard choices and real change, but the Government of Canada did not. In this budget we are bringing the government size and its structure into line with what we can afford. ... As a result of the cut-back and reform programs, the President of the Treasury Board has announced that the public service will be reduced by some 45 000 positions over three years, with 20000 being eliminated by the summer of next year. ... Because so many of those affected have given so many years of valuable service to Canadians, we are committed to downsizing the public service as fairly as possible."<sup>15</sup>

It is worth noting that the reason given for downsizing was affordability, (i.e. fiscal necessity), emphasis was given to carrying out this plan fairly and with regard for the commitment and service given by workers to the public service. The Resident of the Treasury Board elaborated later: "The

Government is seeking a balance between the need to reduce its workforce and the need to be fair to employees."<sup>24</sup>

### **Impact of reforms on HRM**

PS 2000 and subsequent initiatives, especially the 1993 restructuring of government, have created major challenges, but also opportunities, for the public service as a whole and for public servants themselves. The preceding sections have discussed the reform priorities, this section assesses how the challenges and opportunities offered by reforms are being experienced from the perspective of management and line staff. First, reforms are discussed from the perspective of two public service departments: Human Resource Development Canada, and Public Works and Government Services. The description and assessment of reform strategies and implementation in these departments is based on interviews with managers, executives and human resource management professionals in the departments.

Following these mini-case examples, further discussion is provided on how the recent reforms stemming from PS 2000 and subsequent restructuring and cost cutting exercises are being experienced more generally in the public service, based on interviews with a variety of people in the public service, including senior officials in central management agencies. This section is presented in three parts: issues related to the restructuring and downsizing that are presumably temporary; morale and performance management in the wake of reforms and how they affect people management; and issues of a systemic nature that are endemic to many large public organisations.

### **Human Resources Development Canada**

Human Resources Development Canada (HRDC) is a new department formed by government in the organisational changes of June 1993. HRDC is responsible for all programmes that have to do with income support and with the labour market. This department illustrates one of the main aims of that reorganisation, which was to provide organisational focus by bringing together in one department, all government programmes with close policy and programmatic links. Within the framework of one ministry, it is thought to be easier to integrate and co-ordinate programmes and activities. As a result, HRDC became one of the largest mega-department in the Canadian Public Service. The situation of the department in late 1994 (the time of data collection for this study) was dominated by the efforts to implement that reorganisation.

The new HRDC was composed of a variety of programmes formerly found in different departments. In the end, its policy scope comprised the following areas: education support and social development, the literacy programme, income security and cost shared programmes, the employment and insurance programme, and all programmes and services of the former Department of Labour. The collective objectives of these programmes are to build a "mobile, skilled and educated work force in Canada" and in this way to "increase Canada's productivity, international competitiveness and the prosperity of its citizens". The integration of all government activities that deal with income support and with the development of human resources is seen as an important way to provide better services to clients at a lower cost.

The first step in implementing the reorganisation was the creation of a management group drawn from the various programme elements of the new department. Soon after, the "corporate elements" (finance, human resource, etc.) were organised at the headquarters level. A review of the regional

levels and the "delivery system" was also undertaken and resulted in a decision to reduce the number of regional units from 37 to ten (one per province).

HRDC operates with a workforce of approximately 27 000 employees. The majority of the staff, nearly 75 per cent (20 000 employees), are junior level officers and clerical staff. These staff assist in administering a wide variety of programmes and activities. One of the main challenges for management has been to integrate many organisational cultures and functions into a new unified organisation. One of the main barriers to assimilation appeared to be growing internal tensions between staff groups, such as between programme staff and policy staff; headquarters and regional offices; and personnel from previously different organisations, particularly with staff from the formerly smaller organisations who felt that they were being swallowed in the new super-structure. This latter dimension was particularly difficult to overcome as there were often significant cultural differences between the old and new organisations.

At the same time that morale and culture was an important management issue, HRDC was faced with continued budget, programme and personnel cuts. Such pressures only added to the level of stress. In particular, erosion of programmes and resources had a large effect on staff morale and commitment, as staff working in social policy programmes (as in many areas of the public service) generally believe strongly in the value and impact of their programmes in meeting important social needs. Additional stress, tension and insecurity was found among the line staff, particularly those in clerical-type positions that may be less specialised, have fewer educational requirements and focus on process and administration. Moreover, the resource base was expected to fall by approximately five per cent in coming years and since more than three-quarters of the operating budget is dedicated to salaries, this meant that personnel numbers would need to be reduced by about five per cent to achieve the budget reduction. In 1994 it was still possible to implement personnel reductions through attrition. However, in the future an anticipated escalation in reduction targets, was expected to make a voluntary strategy harder to sustain. Even at that time it was already proving difficult for management to maintain and improve service standards and at the same time reduce staff sufficiently to meet budget pressures.

At the branch level, line managers reported feeling very restricted by the rules and regulations in the HRM field. One line manager had carefully prepared a total reorganisation of her branch. The reorganisation included a complete reengineering of the process of delivering service to the public and reduced the staff by one-third. However, to implement the proposal, the line manager reported having had to go through a stream of bureaucratic processes, including:

- working closely with the Treasury Board Secretariat for training, downsizing and "contracting out" (which was part of the proposal);
- handling a large number of staff hired as "terms" -- that is, for a limited time period and therefore not covered by the regulations that apply to ordinary staff. One problem was that some of these limited-term employees were very skilled and difficult to do without, but difficult to retain because of cumbersome hiring restriction and the requirement to give hiring priority to existing surplus staff;
- going through an extremely complex personnel operation involving new job content for the employees, new ratings, new classifications, resulting staff procedures, etc., all of which had to be done in co-operation with the central agencies and with the corporate

human resource division. Since the branch had no HRM staff of its own, managers were dependent on technical assistance from other organisational levels.

The general experience of line-managers in the agency was that the central HRM system was time consuming and made it difficult, almost impossible, to implement radical changes in organisation and business functions. Interestingly, human resource managers at the corporate level provided similar views. In fact, human resource managers at the corporate level reported welcoming the reform initiatives, particularly those aimed at simplification of the classification system and the delegation of staffing authorities. From the perspective of line-managers, however, implementation of the reforms at the corporate level were considered half-hearted and cautious. Seen from the perspective of a line department, the main challenges in the next years would be to proceed with simplification of the human resource system, train human resource officers to become advisors to managers rather than monitors of rules and regulations, and train managers to be "people managers" and not specialists in a narrow field of expertise.

A manager at the corporate level suggested that fault for slow implementation came from both sides -- both line-managers and HRM staff. He noted that since the system is so laborious and hard to "run" for managers, they tended to find ways to circumvent the system. For example, in order to get around the obligation to take surplus people, they may upgrade incumbent people or they may fill vacant positions with "acting" people. The percentage of positions filled with "acting" people was reported to be so high that he wondered whether the staffing system functioned at all any longer. Another factor was that the managers were not in a position to play the role of "employer" to the employees, because managers had no power in the HRM field. In this situation, he explained, the human resource staff function as experts and become "mediators" between management and employees. Management refers all human resource questions to the human resources staff, the "professionals", and in this way management neither takes responsibility for nor gains any experience with HRM.

To try to better integrate HRM into the everyday functions of line managers, HRDC hopes in the near future to more fully integrate human resource planning into the corporate strategy. The first step would be to work out a corporate mission statement and a comprehensive strategy. Decentralisation of HRM is also on the agenda of management priorities. Each of the ten regions will continue to have its own human resources staff, while the corporate human resources staff will take care of the headquarters office and be responsible for any functions that are not decentralised.

In looking beyond the agency itself and into the effects of reform on the broader public service, one very interesting theme touched upon by several managers in HRDC was that of "broken contracts". It was noted that in past decades the public sector offered its employees a "contract", according to which the employee received tenure, a career with a specific range of job functions, worked long hours, received reasonable pay, was promoted based on a combination of merit and seniority, and was completely loyal to the public service. Now, demands seemed to be unlimited, there were no real "rights" to career or advancement, wages were frozen and sagging behind the rest of society, and tenure and job-security were threatened. To employees in the public sector, even people in top positions, the contract appeared to have been broken with little to replace it. It was suggested that while management can try to mitigate the problem this causes for morale and productivity at the department level, unless it is fixed at the highest level, there remains a systemic problem facing the civil service.



## Public Works and Government Services

Public Works and Government Service (PWGS) is another department created through the 1993 reorganisation. This new department brought together four former common services organisations: government telecommunications agency, Public Works, Supply and Services, and the Translation Bureau. A benefit for management in implementing the restructuring was that each of the four constituting parts already operated under similar "client-centred" traditions for quality service and professionalism. The new department is organised with a corporate headquarters and a number of agencies responsible for the different services. The department also has a regional structure because most of its services are delivered nation-wide. The department operates with a staff of approximately 18 000 employees and 200 locations.

The PWGS is the major provider of services to the government of Canada, including:

- administrative function: receiver functions, accounting and report, provision of office space;
- common services: architectural and engineering, translation and interpretation, information management, communication service, and supply of stocked items;
- issues related to the Crown Corporations;
- real estate, property management and building services;
- facilities management: procurement, telecommunications and informatics, communications, printing and publishing, consulting and audit, compensation services, standards and qualified product lists.

PWGS management reports that the organisational challenges for the new department are: creating a common working culture among the variety of tasks and functions of the new agency, being responsive to client demands, maintaining a motivated workforce during a time of change, maximising employee skills in the new structure, eliminating duplication, and achieving efficiencies needed to reach budget reduction targets. A Transition Team was established shortly after the reorganisation was announced in order to develop plans for administrative and regional consolidation and operational rationalisation. Consistent with these plans, a vision statement, management philosophy and a set of operating principles were developed; organisational structures and accountability relationships were established; and legislative requirements were outlined.

As part of the planning, a comprehensive HRM strategy and plan has was developed early on. According to management, a common human resource strategy is seen as a crucial element in creating an integrated organisation. The human resource strategy contains common principles covering the whole organisation and other more specialised operating principles for special groups. Regional management has considerable flexibility and freedom in managing its employees through a broad range of HRM issues. In short, there appears to be a good balance operating between centralised and decentralised HRM authorities.

Among line managers, views on the success and desirability of decentralised human resources authority tended to vary. The dichotomy of opinion was most notable between the views expressed by a manager responsible for a traditional department versus a manager in a special department (i.e. one operating on a more private sector-like model). This dichotomy is significant in

underscoring the need for tailoring HRM structures and strategies to the varying needs, goals and objectives of public service organisations -- even within a particular department.

One manager responsible for a major, traditional public service department strongly opposed human resource decentralisation. He saw his job as running the core business of the agency and wanted to be evaluated on the results of the agency, not as a "people manager". Seen from his point of view, delegated HRM responsibilities were a waste of time and something for which he was not qualified. He also questioned whether the recent reforms really "empowered" line managers and did not simply make line managers do the jobs of central human resources staff. Another reason for his opposition to decentralisation was the loss of economies of scale for HRM function and the need to maintain a unified public service.

Another line manager in charge of a special department had the exact opposite view. He described how he had changed his agency from a traditional public service organisation with a monopoly to an agency that today competes successfully with private sector firms. In order to do this, the agency had been forced to become much more flexible and efficient. Success in this area had only been possible because their status as a special agencies made it possible to change most HRM systems -- although even in this context, changes had been done in co-operation with the central HRM agencies and the changes had been negotiated directly with the unions. Today, the agency has its own classification system, with all employees on the same pay scale. It must also be noted that this agency has moved very far along the continuum to full commercialisation and, as such, has less in common with a department in the traditional notion of a public service organisation.

While top management at PWGS believes that it is necessary that all components are seen as part of the same organisation and function on the basis of a number of key principles, they also recognise the crucial need for flexibility and decentralisation if they are to meet the vision for the organisation. In this regard, many of the management reforms regarding devolution of authority that have been initiated since PS 2000 are reported to have been welcomed by management and human resources staff. The main human resource issues in this agency appeared to have less to do with integrating disparate cultures than the problem of dealing with general management issues regarding downsizing and meeting increasing demands with fewer resources. The main problems faced by the PWGS as part of its reorganisation fall into the context of broader sector-wide questions that the central agencies will need to face such as the extent to which agencies will be allowed to "compete" with the private sector and what rules should apply to public sector workers in those agencies.

## **Individual perspectives on HRM reform in the Canadian Public Service**

### ***Effects from restructuring and downsizing***

From a human resource management perspective, the most common theme raised by interviewees in the course of this review of the Canadian experience with HRM reform is the tension that has developed between the overwhelming need to cut costs and programmes for fiscal reasons; and the desire to continue to invest in the principles and practices of good public management. With the principles highlighted in PS 2000, Canada stepped to the forefront of public sector human resource management reform. Not five years later, fiscal pressures brought the intentions of PS 2000 nearly to a halt as well intentioned public management reform became subordinated to the fiscal imperatives of budget reduction. Discussions with experienced public servants brings out the wide range of feelings toward the current reform environment. For some public service managers and executives the current situation brings bitterness, disillusionment and a sense of the fatigue from

constant change and pressure to reduce costs. For example, some interviewees noted that whereas PS 2000 initially had a strong emphasis on HRM, current reforms appeared to be driven primarily by the fiscal imperatives of deficit reduction, including devolution of functions, cutbacks in service, restructuring and downsizing of staff and programmes. Such a process inevitably put pressure on staffing processes.

Other interviewees noted, however, that the drive for fiscal imperatives and resulting policies represented new possibilities and ways to create opportunity out of adversity. When faced with strong financial pressures to cut costs, it is obviously possible to focus on money only (i.e. on the negative side of cutting and reducing cost) and ignore everything else, including HRM principles. Alternatively, it was pointed out that it is also possible to engage creativity, to find positive solutions to difficult problems and to link cost savings with innovative HRM strategies. For example, it was suggested that agencies should work at designing incentives that are based not on money, but on other things people would like to do or have. However, the wage freeze legislation prevented any actions in that regard.

For the labour unions in the Canadian public service, however, the situation holds fewer opportunities for promise and creativity. Not surprisingly, union representatives are generally frustrated with the present situation. Collective bargaining with the unions has been practically non-existent since the beginning of the wage freeze in 1991. The unions (as well as many managers) are well aware that the relationship between employer and employee in the Canadian public sector is undergoing fundamental changes with little on offer to indicate what the new system will look like or what the role of the labour representatives will be in the future work environment.

Interviewees felt that relationships with the labour unions will be critical over the next few years and that union representatives will need to be encouraged to participate in finding productive solutions to common challenges. Adversarial practices can no longer work in the current environment. The reinstatement of collective bargaining announced with the 1996 budget is certainly a very positive step and a strong message from the Government to the importance of labour relations in managing the public service.

Collective bargaining is normally done centrally by the Treasury Board Secretariat, in consultation with departments. Relations with the unions at the central level can vary significantly from labour relations at the local (departmental or agency) level. The issue of greater authority on the part of departmental management to make partnerships with workers and their union representatives is being raised, with questions as to which functions should be retained centrally and which should be devolved to departments. However, the decentralisation of collective bargaining raises another issue which relates to the resources available in the departments to take on that role.

Interviewees expressed reservations about the June 1993 restructuring of government and the public service, despite what appears to be successful restructuring in the Public Works and Government Services Department, described above. The restructuring created fewer departments, most of which are much larger than before. Revenue Canada, for example, now has more than 40 000 employees (more than most corporations in Canada). One difficulty of merging different departments is that the distinct cultures do not easily combine into a new cultural entity. Often, there has been amalgamation in name rather than in reality.

Despite the many concerns about restructuring, the positive aspects cannot be dismissed. Overall, those interviewed were in general agreement that despite numerous problems and difficulties, the cost reduction measures are also creating possibilities and opportunities for HRM that were not there in

prior years. However, in the future, innovation and partnerships (between management and unions, and management and staff) are seen as the key ingredients needed in order to make the most of these opportunities and create a positive climate that looks beyond the potential negative effects of cost control and downsizing.

### *Effects on performance and management*

Morale and performance problems are beco

ming an issue in the face of relentless pressure to do more with less and depersonalised processes of restructuring and downsizing. Public servants in Canada are facing "survivors" syndrome -- feelings of sadness and guilt, combined with anger, uncertainty, and fear that they may be next to lose their jobs. Resulting morale problems are compounded by ongoing wage freezes, absence of opportunity for promotion, downsizing, growing workloads for staff remaining behind, and insecurity about the future. The effect of this "syndrome" is mainly on morale, productivity and performance as energy that should be applied to the workplace is spent on the emotional turmoil. Consequently, many of those interviewed felt that more attention should be given to the needs of individual staff for reassurance, support, security and commitment to their careers.

The common bottomline analysis was that mechanistic reform solutions that do not factor in human nature or the values and commitment people bring to their jobs, tend not to result in high performance. It was suggested that this phenomenon is observable in both the private and public sectors where when things are working well, especially in complex environments, it is due to the quality and commitment of people to the workplace and the product. Structures and systems alone do not produce high performing organisations.

### *Structural issues affecting reform*

The interviews pointed to some key structural issues that need to be considered in developing reform implementation strategies in the public service, many of which are generalisable to other OECD countries. One issue is how to move beyond the status quo in public service organisations to instil a new culture of continuous change and improvement and to create favourable conditions for new ideas to take root. Another is the need to invest in modernisation and renewal rather than waiting until the system is in serious degradation. This is particularly important as regards reforming human resource management and equipping the public sector workforce for a changing workplace. A final issue is the need to ensure that all players in a reform scenario are included in some way in the process of developing a reform agenda, and buy into both the need for the change and the means of achieving it.

### *Concluding remarks*

Canadian public service reform activities in the 1980s and 1990s offer striking examples of the kind and number of difficulties that can arise when engaging in public management reform and modernisation in the face of dire fiscal pressures and the resulting need for cutbacks and severe fiscal constraint. In the Canadian situation, it is clear that the difficulties in achieving reforms can only be partly attributed to tensions between the negative associations of cost cutting reforms competing with more positive reforms aimed at better management and career structures. Fatigue of the workforce resulting from incessant waves of structural and management reforms may form an equally substantial

barrier to progress and the willingness of the public service to embrace and even trust new reform priorities. Yet, many of the people interviewed for this review commented on the positive aspects and challenges brought about by change and pressures to reform, although they also commented that these positive aspects often tended to be overlooked.

When evaluating the degree of success for the reform situation in the Canadian public service, two additional points should be remembered. First, it is important to **keep** the perspective that "reforming" a large organisation such as the public service is simply another way of saying that it is learning, which includes experimenting and correcting. It is learning to adapt to an environment that is changing -- often changing so rapidly that adjustments, adaptations and "reforms" are necessarily following each other at even shorter intervals. It is easy to foresee the ultimate situation -- a public service that adopts a culture of continuous learning, in which there will no longer be **distinct** reform initiatives, but constant, ongoing change, especially in the way people are managed and the work is organised. Such a scenario may present particular challenges to the Canadian public service which is already grappling with ways to sustain morale **and** motivation in an environment of ongoing pressure for change **and** adaptation.

Second, Canada is not alone in these epic changes or the pressures that lead to them. We see similar major reforms in the public services of the United States, Australia, New Zealand, United Kingdom, France, Sweden, and in many local governments. These various initiatives share a common origin. They are based on governments' need to cope with global forces that are transforming economies, societies and interrelationships throughout the world. If we see the Canadian efforts in that international context, we note that the wrenching changes witnessed in their reforms are in many ways normal, as managers and policy makers try to find ways to balance the conflicts between collective and individual priorities. Perhaps the most important feature that must be pointed out about Canada is that despite the relentless change and uncertainty, the Canadian public service remains an effective institution. Moreover, the clear awareness on the part of many high level public servants about the difficult problems facing the Canadian public service regarding the morale and job security of its workforce, its image and viability as an employer, **and** the need for better partnerships between managers and workers, would all lead to an expectation that the focus on people management will reappear with some vigour into the reform process.

Interestingly, this message regarding a renewed focus on the people side of reform can already be found in policy-level documents. For example, the Clerk of the Privy Council and the Secretary to the Cabinet emphasised this point in her August, 1995 Report on the Public Service: "the transformation of the public service must continue .... The leadership challenge for the senior ranks of the public service will be to articulate a coherent vision and ensure that public servants have the tools they require to do the job."<sup>7</sup> To move forward with reforms, the Canadian public service faces the same challenge present in many OECD countries, of taking the difficult **step** of moving this message further out of the realm of political rhetoric and into the actual policies and practices of day-to-day management in the public service.

## NOTES

1. Glen Shortliffe: Second Annual Report to the Prime Minister on the Public Service of Canada, Minister of Supply and Services Canada, 1994.
2. **Note** that "employer" does not include appointments, which are legally the responsibility of the Public Service Commission.
3. David Zussman and Jak Jabes, The Vertical Solitude: managing the public sector, The Institute for Research on Public Policy, Canada, 1989, page 213.
4. See, Public Service Commission of Canada: 1993-94 Annual Report, Minister of Supply and Services Canada, 1994, pp. 35-36.
5. Royal Commission on Government Organization, (J.G. Glassco, Chairman), Report - volume 1, 1963.
6. Minister of Supply & Services Canada, Report of the Auditor General to the House of Commons, 1978; and Special Committee on the Review of Personnel Management and the Merit Principle in the Public Service, (G. RD'Avignon, Chairman), Report of the Special Committee on the Review of Personnel Management and the Merit Principle, Supply and Services Canada, 1979.
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8. Office of the Prime Minister, Public Service 2000, Press Release, December 12, 1989.
9. Office of the Prime Minister, 12 December 1989, quoted in Public Service 2000, The Renewal of the Public Service of Canada, page 3 (Minister of Supply and Services Canada, 1990).
10. Office of the Prime Minister, Public Service 2000, Press Release, December 12, 1989.
11. See Report of the Task Force on Workforce Adaptiveness, pages 24, 27 (Minister of Supply and Service Canada, 1991).
12. See Glen Shortliffe: Second Annual Report to the Prime Minister on the Public Service of Canada, Minister of Supply and Services Canada, 1994.
13. **Ibid.**
14. See Notes for a Statement by Prime Minister Kim Campbell, and the associated Press Release, Ottawa, 25 June 1993.
15. House of Commons Debates, 27 February 1995, page 10097.
16. Treasury Board of Canada, News Release, 4 April 1995.

17. Jocelyne Bourgon, 3rd Annual Report to the Prime Minister on the Public Service of Canada, Minister of Supply and Services, Ottawa, 1995.





## HUMAN RESOURCE MANAGEMENT REFORMS IN THE FRENCH PUBLIC SERVICE

by Sylvie Trosa

### Introduction

In France the lessons regarding strategies for implementing management reforms in the public service gained from the failure of an earlier reform to streamline budget decision-making, (the "RCB" project attempted during the early 1970s') have led the government to make human resource management a key element of its approach to modernisation. The present goal is to promote modernisation which will be accepted by the staff, and to encourage management to co-operate. Human resource management is associated with criticism of top-down authoritarian reforms imposed in the same way as the streamlining of budget decision-making. It is also associated with the idea of restoring the reputation of the civil service: the civil service can only become as efficient as the private sector by restoring its image and motivating its personnel, instead of condemning poor productivity.

The two main objectives of modernisation of the central HRM policy in France are the devolution of human resource management and the renewal of a dialogue with the unions. The French civil service is dominated by central (sector-wide) rules. Devolution aims to preserve some central rules (i.e. for recruitment and promotion) while leaving management and application of those rules devolved to line managers.\* The government also sought to expand the dialogue with the unions beyond just pay issues, to include the conditions governing civil service employment. With regard to human resource management programs, France has favoured:

- motivation and awareness programs for staff (training, quality, focus on individuals);
- forward-planning management of staff and positions.

This said, however, a modification of the regulations and constraints governing the service has only been only undertaken in selected ministries, and then only to a limited extent. A wide-ranging reform of the civil service structure was carried out in 1990, but its goal was more to correct inequalities between positions due to the age of the regulations governing them, than to draw conclusions about the modernisation program.

The current programme of modernisation of the civil service in France was first articulated in an interministerial circular from the Prime Minister dated 23 February 1989. This was an attempt to bring together all the elements necessary for a programme of reform of the civil service in a single legal text. This circular embodied the ideas of top civil service reformers. It was drafted and directed by the Prime Minister personally, there having been no prior consultations with industry or unions. Human resource management plays a central role in the reform programme.

The interministerial circular lays down the principles for modernisation.

- revival of social dialogue and negotiations with the unions;
- development of autonomy and agency accountability;
- establishing management evaluation;
- priority for human resource management; and
- openness to the public.

It does not, however, set any timetable.

Ministries are free to choose the pace of modernisation, working methods and even its scope (e.g. whether it is better to favour incremental reforms or across-the-board reform). This freedom stems from a desire to motivate personnel, rather than compel them to participate in the modernisation process, by using volunteers as a means to help and encourage compliance.

A second circular by the Prime Minister on 25 January 1990 provides for the possibility of creating accountable line agencies (*centres de responsabilité*) by means of a quasi-contract between the agency and the related department. An accountable line agency must define its objectives and the means to measure its results. In return, its operating budget (excluding personnel)<sup>3</sup> is globalised, with the balance carried over from year to year, and financial controls are lifted (in theory).

In most cases, the existence of an "agency project", that is, a common project defined in conjunction with all of the staff, is required as a pre-condition for permission to create an accountable line agency. From the point of view of human resource management, it is interesting to note that the existence of a co-operative staff-management project is a pre-condition for autonomous management. Today, all ministries have created a modernisation plan. In addition, 700 agency projects were put into place and 207 accountable line agencies were set up.

The year 1995 was a transition year as regards accountable line agencies. The existing accountable line agencies were renewed and will continue thanks to simpler procedures. The knowledge gained from experimentation has permitted the launching of an experiment in decentralised financial control over decentralised spending in the regions of Champagne-Ardenne and Aquitaine.

A circular from the Prime Minister dated 26 July 1995 provides for the generalisation of the process from 1997 and extends to all decentralised services management regulations applicable to accountable line agencies.

In addition, experiments should begin from 1996, for services that are willing, to take on a more ambitious plan of "performance contracts" which outline the objectives assigned to operational services and the margins of manoeuvre within those guarantees, as part of the negotiation for a global budget which includes personnel.

Most of the agency projects have been driven by a desire to motivate staff in order to encourage better functioning programmes. In particular, agency projects tend to focus on issues such as reception of the public, internal communication, work organisation, work conditions, and the quality of service

to the public. In contrast to public service modernisation in some other European countries, however, emphasis was not put on defining measurable objectives. At present, productivity is not specifically articulated as a priority in agency projects. This does not mean, however, that agency projects have simply remained lists of guidelines. Many of them contain plans of action whose implementation can be measured. Others, however, in the spirit of corporate charters, stress values first. A quote from the General Director of Administration and Civil Service sums up the philosophy behind this approach.

"Change occurs less through legislative reforms and regulations than through the dynamics of the workplace. What allows adaptation is not the centralisation of decision-making or global streamlining, but rather devolution and micro-regulation?. It is the autonomy of line agencies that creates openness and responsiveness, the linking of agency responsibilities and staff management" (The General Director of Administration and the Civil Service (*le Directeur général de l'administration et de la fonction publique*), from a speech given at the *Ecole Nationale d'Administration*, 17 January 1992).

The development of human resource management in France has thus been defined as the top-priority programme for modernisation; it has been highlighted much more strongly than financial or management considerations. This has been the result of various developments:

- The realisation that the hierarchy mechanisms in the civil service are extremely rigid. The civil service today is viewed as a universe of anonymous civil servants where obeying the rules takes precedence over taking on responsibility and where the multiplicity of hierarchical levels discourages initiative, or conceals its absence. The changing of hierarchical relations, greater structural flexibility, and the capacity to delegate responsibility are therefore seen as pre-conditions to any organisational and financial modernisation programme. Some ministries have even asked agencies which wish to modernise, i.e. by putting into place analytical accounting or performance charts, to first make these programs acceptable to the staff by setting up a new mode of hierarchical relations through training programs, internal communication, and quality groups. At the Ministry of Public Works, the personnel director (1985-1992) started with the idea that no modernisation programme could succeed without far-reaching changes in human resource management.
- The realisation that there is a crisis in attracting people to the civil service. Although no figures have ever been officially published, confidential ministry-by-ministry surveys have shown that there is a certain loss of talented people, tempered by the effects of the unfavourable job market. In France, movement by civil servants into the private sector is not a new phenomenon, indeed, for decades there has been a fairly symbiotic relationship between the private sector and the State. What is new about the phenomenon is its qualitative dimension -- the fact that resignations are due more to frustration with the lack of operating autonomy -- and the fact that young civil servants will no longer accept a career governed by abstract rules, but wish to follow individualised career paths which have been designed, discussed and even negotiated in advance.
- The influence of civil service consultants, who today strongly emphasise that human resource management must be included in management practices.

The reasons for this are essentially historical: the failure of technocratic modernisation in the years 1970-1975 -- the ministries wanted to learn from the experience of the project for streamlining budget decision-making (RCB). At the time, the RCB had raised many hopes, chief among which

was the creation of an arbitration-type approach to budget decision-making that was entirely based on rational criteria of effectiveness and efficiency (multiple ratios allowed the calculation of what each project or agency needed in terms of time, material and human resources). The first stumbling block encountered by this approach was that key decisions on the budget must also take political considerations into account, and that the Ministry of Finance at the time was suspicious of a system that was based on expressed needs which would lock the Ministry in for several years and reduce its ability to control matters over the short term, especially since the RCB focused on technical ministries, that is to say departments in which investment is very much future-oriented. But this general reason was not the sole cause of the failure of the RCB. Its future was compromised by the way in which it was implemented, what one might call its technocratic character, i.e. the fact that it was conceived and imposed without taking implementation problems into consideration, and in particular, strategies designed to win over and motivate management and staff to support the reform. This could be considered the key feature of human resource management, the realisation that reform involves groups of human beings who must be understood and who demand a strategy -- that a highly developed technical approach is not enough.

Two key strategies were essentially adopted by the ministries in their effort to move away from the "technocratic" model of imposed modernisation:

- complete freedom for line agencies? with modernisation being purely voluntary, though supported and recommended by the central administration;
- an attempt to define the dividing line between what is expected of agencies and personnel, and what is left to their own initiative.

### **Modernising central human resource management policies**

France first wanted to address the need to loosen up management of the profoundly unified and centralised rules on civil service careers. Further it worked towards accountability and civil servant participation at all levels of administrative modernisation through agency projects. On the other hand it has made less progress, except in certain administrations such as the Ministry of Public Works and the Ministry of National Education, on the question of performance assessment and individual or group performance-related pay mechanisms (discussed below).

The reform strategies are pre-established (mandatory and standardised) on certain points and experimental and more flexible on others. In particular, they are mandatory and standardised (i.e. within a framework) with regard to the stabilisation of salary budgets. They are experimental with regard to human resource management programs linked to personnel motivation or appropriateness of management procedures. For example, a new process for the annual performance discussion was tested for four years in the Ministry of Public Works before being extended to cover all departments and staff. The choice of deliberately experimental approaches seems to correspond to three concerns:

- to test solutions to see if they are viable and to determine their effects;
- to gain public support, especially among civil servants, for these changes; and
- to prove to the Ministry of Finance that they can be effective.

One example promoted by the French authorities as successful implementation of new human resource management practices resulting from assessed experimental projects comes from the Ministry of Public Works. The procedure for all human resource management decisions is as follows:

- decision in principle by a steering group including unions;
- experimentation in a sample of agencies;
- analysis of the experimentation by the steering group;
- distribution and experimentation by the steering group, including a book of recommendations;
- establishing training programs; and
- compulsory expansion of the measure after the completion of all other phases.

Nevertheless, this means that a reform of this type takes three to four years for complete implementation (due in part to the fact that this particular ministry employs 100 000 people).

In France central personnel departments have seen some tasks decrease (those which have been delegated), but delegation is actually very limited. In addition, central personnel departments have had to take on new roles, including:

- ensuring minimal coherence of rules and the mobility of personnel from one agency to another;
- arranging for the sharing of experience between agencies;
- reviewing new processes;
- being equipped to act as a consultant to devolved agencies as needed.

Such change on the part of French central management departments has not always been easy, as it assumes both new behaviour and abilities. The change from an activity with uniform, imposed standards to working through motivation, exchange and networks is not spontaneous.

For the moment the changes in the role of central personnel departments have not been fully implemented, most often because the investment of ministerial officials in the modernisation of central administrations has been weaker than the attention that has been focused on agencies taking on devolved authorities. Accordingly there is one scenario which is not out of the question: instead of adapting, central administrations in ministries adopt an attitude of retreat, leaving devolved agencies to fend for themselves. In this case the risk is of a reduction in staff mobility, and tensions linked to differences in practices. On the other side, personnel departments in devolved areas first of all tend to see their powers grow because human resource management tasks increase which they cannot immediately delegate to management (who must be won over and trained). Perhaps the ideal scenario for the French public service would be accountable management together with a co-ordinating role for personnel departments (of agencies and ministries).

The central goal of civil service reform (known as the Durafour Agreement) was to restore the reputation of careers in the civil service. A primary aim of this goal included taking into account the evolution of tasks in career structures. For example, accounting for the fact that numerous tasks having become more complicated as a result of technological modernisation (e.g. former roadworkers who today use computers to co-ordinate worksites and calculate costs). Ultimately, the measures taken included: abolition of the lowest civil service category (known as category "D"), restructuring the intermediate categories (known as categories "B" and "C"), and overhauling the management structure.

In modernising the structure of employment, the current set of reforms also aims to take into account the special features of certain positions, particularly when personnel must work under difficult conditions or in less sought-after geographic locations. In this case, special needs are being met through a "new bonus point index" (*la nouvelle bonification indiciaire* or "NBI") which offers staff meeting certain criteria an accelerated career path. The reform is difficult to implement both because the definition of criteria has been left to the responsibility of the ministries and because its implementation assumes the ability to accurately determine which civil servants are really working under unusual conditions. The latter, in particular, is difficult to ascertain at the national level. Because of difficulties in applying the index correctly and fairly, the unions would like to define national criteria. At present, however, the system remains decentralised.

Professionalisation of the civil service is also a central policy goal.

- Initiatives in this area include adding a course on European goals and one on urban problems into the initial training which follows the recruitment of civil servants. Similarly, courses on administration and management have been included in all managerial level training (including that of magistrates).
- Project letters detailing the general goals of the ministry must be issued for top civil service management such as line managers with devolved authority and central administration directors. This measure has not yet been applied generally, especially because in the case of line managers it involves both the ministry and the prefect.<sup>4</sup>
- In the same vein, ministries are called upon to expand training programs designed to help personnel fit into their new jobs.

## Devolution and decentralisation

A key factor in implementing HRM reform in France has been establishing the balance between managerial autonomy and accountability. One of the essential aspects of human resource management in the civil service has been to define which activities are autonomous, which are the responsibility of line agencies, and which are governed and guided by the central administration. The RCB was both imposed on staff and dictated by the central administration. The question that the officials at the *Ministère de l'Équipement* had to ask themselves was this: what must be demanded of the agencies, and what can be implemented only with their agreement? What cannot be defined by the central administration, and what requires an analysis of the problems in the field? Or to put it more simply, what balance is to be struck between obeying orders and voluntary action by agencies, between top-down and bottom-up decision-making? An example of this process of boundary setting

is offered by the development of the system of resource allocation within the Ministry of Public Works.

At the Ministry of Public Works the outcome of the RCB process was a budget system based on project-resource matching ("*adequation missions-moyens*" or AMM). Under this system ratios developed by the central administration were used to calculate resource levels for all of the Ministry's activities. The complexity of the system rapidly escalated because the agencies using the system complained about the lack of comparability between the pre-set ratios and programme needs. As a result, there was constant demand for the ratios be recalculated -- which was done frequently. In the end AMM had more than 400 indicators, which became unworkable.

The link between this failure and current human resource management strategies is understanding that these problems at the agency level were inherent in the way in which the system itself was defined. Instead of working with agency management to determine the relevant indicators and their purpose (e.g. which indicators were meant to inform budget decisions; which indicators allowed the evaluation of agency efficiency; which indicators were useful for local decision-making) the central administration unilaterally defined and imposed its own criteria. The method chosen in the current process (starting in 1990) has, on the contrary, favoured a bottom-up approach. The central administration formed a group of managers (directors of line agencies and management experts) to identify needs. This group assessed the appropriate indicators of efficiency and results activity-by-activity. Following the initial analysis, a selection was made to determine what indicators were absolutely essential to the central administration in order for it to allocate resources between agencies, to argue for its budget at the Ministry of Finance, and to be able to evaluate the comparative efficiency of line agencies. This exercise resulted in a maximum of 10 to 15 different indicators. Any additional indicators were sent to the agencies as guides and not as standards. The idea being that these additional indicators would be used as planning tools in local decision-making, which need not necessarily be referred back to the centre or centrally approved.

The notion underlying this revised approach was the desire to find an acceptable compromise between what must be demanded of agencies and staff to modernise successfully, and what must be left to their own initiative. The overriding assumption was that there is not just a choice between two models: a flexible, optional, bottom-up model where personnel freely choose their own indicators, versus an imposed, centralised and uniform model like the RCB. Rather, they exist on a continuum and the balance between these two models should be negotiated and decided before finalising the reform programme. Officials at the Ministry believe this interactive approach must also be the basic approach of human resource management reforms. Human resource management in this model consists of being clear about what falls into the realm of autonomous action by line management, and what is explicitly expected of them. In this way, the strategy both guides and encourages.

A more devolved approach to HRM reform has not been adopted by all ministries, however. In particular it is not found in those agencies which did not take part in the RCB experiment, or which did not have an older managerial culture. In these cases the newness of the process, especially the difficulty of moving away from a system that was entirely based on fixed inputs, evaluation of conformity and the absence of goals and indicators, led the national officials to favour "soft", progressive methods based on the desire to make human resources more dynamic, on a voluntary basis, and avoiding processes being imposed without any information or reporting required of the line agencies. The central administration redistributed the Prime Minister's circular as internal circulars and embarked on a programme of change with only those agencies volunteering to engage in reform.

Line agencies were thus able to freely develop their projects and indicators. The role of the central administration often consisted of counselling local departments and ensuring that they had the support of consultants. At such point as an agency was able to put forward a project with objectives and indicators capable of measuring its outputs, a convention permitting the creation of an accountable line agency was generally signed. Precise financial objectives and reliable systems of review have not been generally considered pre-requisites for this status.

The advantage of a formal, but flexible, procedure has been to motivate line agencies without previous management experience and to initiate a process of change in the traditional sectors of State activity (notably in the Ministry of the Interior). The drawback is that the central administration does not have available the information it needs to demonstrate its efficiency to the Ministry of Finance (because no common indicator or reporting system has been established). Furthermore, the Finance Ministry has developed a critical attitude toward the reforms as a whole because of what it believes to be a lack of rigour in financial reporting (which is changing at a slower pace than other reforms). This has led to a sort of opposition between so-called "soft" modernisation (human resource management) and "hard" modernisation (financial management), a division which is sometimes reflected in the office structures of the central administration.

An incremental approach to reform was chosen so as to be able to adapt to departments with traditional functions (as opposed to commercial functions) and to allow time for experimentation. However, if this approach is continued, there is some risk of discouraging innovative agencies due to the limited scope and slow pace of reform. Moreover, the slow pace of reform may heighten criticism and scepticism from the Ministry of Finance, which expects departments to build the capacity for financial accountability.

In numerous ministries the modernising of human resource management has led to the creation of agency projects which have allowed the problems of the agency and staff to be better articulated, and have led to reforms in employment practices. On the other hand, some efforts resulted in more expectations than actual changes. There are several reasons for this.

- First, no preliminary framework was fixed by the services laying out in detail precisely what was expected of the agency and its staff. Moreover, there was not enough information on what reforms were non-negotiable due to financial or organisational constraints. The staff thus believed that anything was possible and felt slightly cheated when they realised this was not the case.
- Second, agency projects brought to light management problems within the ministry, particularly at the central administration level, which could not live up to the defined expectations. In this case the agency had the impression that it was modernising within a ministry that remained unchanged, and on which it depended absolutely for its supply of human and material resources. For example, an agency might have its operating budget globalised in theory, but in practice remained under the control of central administration departments that did not work together; as a result, each year the agency had to renegotiate resource needs with each central office. A time-lag between devolving authorities to agencies and the central administrations adapting to the change is a problem encountered by nearly all ministries.
- Another significant factor was that agency projects did not allow local agencies to achieve sufficient autonomy. This problem was particularly acute with regard to human resource management. For example, some local line managers with large numbers of vacant



positions (because employment in the department in question was viewed as undesirable) were not allowed to recruit either contract employees or temporary replacements. In another agency project a Prefect negotiated with the unions to modify the bonus system so that it was based on performance, and to create a group bonus scheme. The agreement was subsequently criticised by the Ministry of the Interior at the national level, as national unions were hostile to this type of measure. Such problems may take many years to resolve as the French civil service has traditionally been highly unified and centralised in the area of HRM and the shift to devolved authority for people management requires a large cultural Shift.

- Statutory constraints on devolved management also remain strong in the French civil service. Far from deploring this situation, however, most personnel directors see in this an opportunity for good management because it allows stable staff relations within different staff levels and groups. They believe that HRM practices in private sector companies are also subject to central internal rules governing careers. However, studies carried out by independent researchers have shown the existence of "dead-ends" where demography and the need to offer more attractive careers to younger staff lead to a situation where, in a number of occupations, career opportunities are blocked for 90 per cent of the staff between 35 and 40 years of age. The central requirement that individual profiles match vacant positions can be strongly undermined by the fact that numerous job descriptions set aside certain positions for specific categories of personnel or personnel from certain staff groups or levels, thus hampering agency flexibility and professional opportunity and mobility.

### Renewing the dialogue with unions

As noted above, another objective of human resource management policy in France is to develop a dialogue with unions at a devolved, line agency level. Such a dialogue was frequently lacking in the past. Several programmes have been put in place to this end. For example, the devolution of personnel management has resulted in establishing joint commissions with union organisations allowing union representatives to express their opinions to agency managers about the management of personnel. A priority effort also has been made with regard to social action benefiting staff. It has been noted that the civil service often lagged behind the private sector in this area, paying less attention to health, safety, and to staff with personal problems. Social problems are now covered in an annual report which is used to draft proposals for new or updated programmes.

In 1989, for example, the first labour-management agreement on continuing education was signed with five union organisations. The agreement was to last three years and was renewed in 1992 and in 1996. It provided for:

- Priority goals in the area of civil servant training;
- A percentage of the salary budget to be devoted to training (1.2 per cent in 1990, 3.2 per cent in 1992, 3.8 per cent in 1996);
- A minimum number of days for training (3 days in 1989, 4 days in the second agreement starting in 1992) and the agreement dated 22 February 1996 indicates precisely what each group should get for the duration of the agreement, specifically, at least:

- 5 days of training for staff in categories A and B;
  - 6 days of training for staff in category C.
- In 1992, restructuring leave was set up so that training became a means of re-qualification;
  - The agreement of 1996 set the floor on financing training leave at 0.20 per cent of the salary budget; the monthly lumpsum allowance is paid to recipients on professional training leave at a rate of 85 per cent of gross salary and the housing allowance corresponding to the rate at the time of the leave, within the limit of a fixed ceiling.

This agreement was made mandatory for each ministry. Each ministry is, however, **free** to offer more favourable terms.

It is for each administration to evaluate the authorised training and to present each year to a technical committee the results for the previous year. Policy for ongoing professional training must be a matter of consensus with the unions within the appropriate technical committees, at both national and decentralised levels.

Since 1991, pay agreements cover multiple year periods. The last agreement, signed in November 1993, also covered the years 1994 and 1995. The global nature of the negotiations was confirmed since the preliminary statement of the negotiation consisted of parts that were not strictly salary related; thus, the agreement signed in 1993 consisted of a section on employment which **was** the subject of important negotiations with the unions. In addition, the preliminary statement can include different arrangements of a social nature such as providing loans for housing or flexible working times.

## **Other priorities for human resource management**

### ***Management training***

As part of modernisation, civil service reform includes increased emphasis on management training. The emphasis on **this** issue stems from two basic assumptions. First, that it is impossible to change an organisation without having won over top management. Second, that human resource management must cease being the exclusive domain of specialists and become one of the ordinary responsibilities of each manager.

These principles were clearly defined, for example, in the comprehensive reform initiatives of the Ministry of Public Works. Over a **three** year period, more than 200 managers (approximately half of the management staff) took part in a comprehensive management programme (8 weeks spread over a period of 6 months). Training was coupled with the implementation of a modernisation project in their agency (an agency-wide programme, not a pilot or other less comprehensive effort). Participants were assessed at the end of the six month period both by their teachers and their hierarchical superiors in the Ministry. Candidates were chosen from amongst the highest management levels. It is interesting to note that even at a **high** management level there was a certain amount of resistance, including comments such as, "we have enough experience" and "we don't need to be trained". The method of training was also different from usual practices **and** caused some upset among participants. Issues of concern included, for example:

- Selection was based on the position occupied and not the grade. As a result, managers at different hierarchical levels were placed in the same group.
- Training was not academic in the sense that the modernisation programme places responsibility on those implementing it.
- Training was graded by hierarchical superiors and teachers.

Officially, this management training is voluntary. Unofficially, it is clear that careers can be seriously affected by whether a person is willing to participate, lending a certain coercive aspect to the effort. Moreover, the coercive aspect introduced some aberrations, especially the participation of managers who are not convinced by the need to change, but who fear for their promotions. The Ministry has judged that even in such cases, participants nevertheless gain value from the course and absorb messages regarding managerial culture to a certain extent. Although this is not enough to transform each individual, it is seen to legitimise the process overall.

Three years after implementation of the training programme, an evaluation was performed by a group of sociologists at the request of the Ministry. The results showed that:

- management practices had changed permanently (more collective decision-making, improved managerial capacity, forward thinking);
- these changes were outliving the transfers of the managers who had initiated them;
- those not receptive to the new ideas, although not implementing them, accepted them from their colleagues (they remain passive, but without active resistance);
- the mass effect, that is, the fact that these were not just individual training programs, but a ministry policy, had had an impact on the change in work practices.

Other ministries, particularly the Ministry of National Education, used management training as a lever for change. This ministry is somewhat unique in that not only the teaching and administrative personnel, but the various categories of administrative personnel are extremely compartmentalised in their work. To build a more team-centred environment, the central administration set up combined training and modernisation programmes bringing together personnel whose tasks were complementary, but who had never worked together, in order to conduct an audit of their agency and to suggest areas for improvement. These training programs were designed and directed by consultants who had themselves first carried out audits of the agencies in question. Training thus became a means to build consensus, create a team-work orientation, and to make workers capable of taking into consideration the management tools provided by consultants.

### ***Mechanisms for building morale and motivation***

The emphasis on mechanisms for motivation and commitment directed at line managers revolves around the priority for devolution and increased authority for staff and managers. At the Ministry of Public Works, line managers with devolved programme authority sign a three-year contract with the personnel director at the ministry, laying out their personal objectives for contributing to the tasks of the agency. Contracts are assessed each year. They aim both to define the manager's field of responsibility and make management accountable (which is believed to motivate). The method of

objective selling involves several key steps. First, departmental directors starting out in a new position put together an assessment of the strengths and weaknesses of their agency. They are aided in this task by a list of criteria worked out by the personnel department, which they may use if they wish. In the end, the analysis must lead to a limited number of priority goals which are discussed and decided on with the personnel director.

The difficulty with these contracts has been to define personal objectives which are not the same as the general objectives of the department. There has been a marked tendency for management to adopt the objectives of the service as their own without showing what they can personally contribute in this field (e.g. What must I, as a manager, personally do for the group's collective goals to be achieved?). This attitude is all the more important as it is precisely human resource management, that is, the ability to motivate fellow-workers and encourage quality, which constitutes the personal contribution of a manager.

The statutory bonus of line managers has been modified to reflect the extent to which these objectives were attained. Cases have occurred where bonuses have been reduced which, in the tradition of the French civil service, has caused some waves.'

Prefects now receive a project letter from the Minister of the Interior setting out their goals. The reception accorded this initiative has been positive, although it founders on the high mobility of management personnel whose career decisions reflect political considerations more than the assessment of their success in achieving the goals set out in their project letters.

Another initiative aimed at motivation focuses on giving increased emphasis to merit over seniority in career mobility. Indeed, in recent years, the traditional barriers between personnel levels have been partially breached by favouring function over position in the hierarchy. For example, the training selection criterion is now based on function occupied, regardless of the grade of the individual. Thus, we have seen engineers from the School of Roads and Bridges, the School of State Public Works, and middle level administrative civil servants placed in the same training programs. In the same way, a project-by-project approach has been systematically encouraged, with the possibility of the project being managed by officials from different levels in the hierarchy, depending on their abilities. The problem for the future is to see whether these innovations will be translated into different career paths. A question remains whether careers will be based as much on ability as on traditional means of progression through pre-set paths. It has been made clear that promotion to management positions in the Ministry of Public Works depends on the amount of participation in the modernisation effort. This is possible at the Ministry of Public Works because the levels are not inter-ministerial and career management is very centralised at the level of a personnel department which is the principal decision maker with political authority. However this still concerns only some of the managers and has not eliminated the traditional pressures to take seniority, compromises with the unions, and the initial stratification of the workforce at the time of recruitment into account ahead of any proof of ability.

### *Performance management*

Mechanisms for building morale and motivation can be seen as part of a larger focus on creating an HRM culture which focuses on individuals, rather than on staff corps. A major part of this effort involves helping staff (particularly management staff) to lay out and plan individual career paths and to discuss the future career options with them. Several steps have been taken at the central level to help with this process. Officials have been selected for each hierarchical level and staff group, and

put in place in the central administration. Their role is to meet with managers and to help them with career planning. Work groups have been formed to define appropriate and desirable career paths. Commissions have been created to identify career paths for specialists in the French civil service, which otherwise remains dominated by generalists.

Progress has also been made in performance appraisals of staff. For example, at the Ministry of Public Works a complete reform of the assessment process has been put in place. The goal of the new process is to determine the criteria for assessments and to build into them the management goals of the organisation. The assessment interview has been extended to all professional staff, and to a large percentage of operational staff. At the same time, the Ministry has also left some parts of the assessment process to the discretion of management. For example, the link between the assessment interview and grading is not mandatory and the timing of the interview is left to the discretion of each agency. The assessment interview must be taken into account in grading, but the two do not necessarily have to take place at the same time. Flexibility in scheduling is designed to leave room for more open discussion between those giving and receiving the grades of the reasons for any discrepancies.

The reform of the evaluation system derived from the fact that 95 per cent of workers were evaluated as "very satisfactory", with overwhelming weight in the grading process given to seniority. Under the new process, staff must be evaluated on to two criteria: an annual performance appraisal by reference to goals set, and an appraisal of individual potential by reference to the individual's career to date. These two processes are conducted separately, but are complementary. For the latter part, each manager is given a career summary for the individual (known as an "orientation report") covering three years. For the former part, the annual assessment report shows the grade, the assessment criteria (which focus on the extent of the individual's participation in the goals of the organisation) and the actual appraisal. Under the new system, the appraisal is divided into two parts: a grade (from six to eight) depending upon seniority, and a grade calculated from the list of criteria cited above which varies from zero to twelve. These numbers are added together for a total grade of between 1 and 20. Approximately half of all staff achieve grades higher than six on the second performance-based part, and only 30 per cent are allowed to receive a grade higher than eight.

With regard to evaluating management, a more complex assessment system has been put in place based on classification into three groups: G1 (50 per cent of the total) representing staff for whom collective management is sufficient and who probably will only make slow progress in their careers; G2 (35 per cent of the total) who have the potential to qualify for a senior management position and are given follow-up "counselling"; and G3 (15 per cent of the total) representing staff who are capable of occupying top management positions. Staff in the latter group receive "guided" and personalised management. This classification into three groups stems from a desire to create a national pool of staff for promotion. Staff in the various groups are assigned to a group on the basis of a joint assessment by line managers and the national personnel department. The extent of personal involvement by professional staff in the strategic goals of the ministry is taken into account; however it is not exclusive of the existing criteria of "technical" staff quality. The professional staff assessment interview is divided into a retrospective portion (on the dossier of the officer) and a prospective portion (assessment of areas of ability and future mobility). It also includes a comparison of an individual's own desires with top management's evaluation of his or her abilities. Following the assessment, the individual receives a letter from the personnel director, together with a summary report which details, for example, the management group, the next proposed post, recommended additional training, in some cases the long-term target position, and the date of the next assessment. This assessment offers a more complex exercise than the annual assessment interview because it involves an in-depth study of the careers of professional staff. It has produced some encouraging

results, such as the fact that nearly two-thirds of the recommended transfers have followed the career paths planned out during these interviews.

New methods of performance management are also being applied to individual occupations. Traditionally, the French civil service has been based on grades applied to the individual. Under this new system, individuals are assigned certain qualification levels which open up access to a whole range of different positions. The advantage of this arrangement is that it promotes mobility within an entire range of positions within a particular occupation and to some extent allows an individual's grade to be separated from his position (for example a young civil servant with a high grade can occupy a top management position). The disadvantage is that progression up the grade structure is essentially frozen at the start of a person's career, especially in civil service departments where employment is decreasing. Further, this system promotes the idea that a civil servant is a generalist who does not have to specialise in a particular occupation. In fact, however, departments are beginning to realise that many civil servants do need to master an occupation and to be rewarded when they produce good results.

At the Ministry of Public Works, a new recognition of occupations is evidenced by the fact that personnel taking up a position, regardless of their level in the hierarchy, now automatically receive specialised qualifying training appropriate to the new position. Overall, the existence of specialised occupations in the civil service has been recognised by the creation of bonuses -- and a new bonus point index -- linked not to the grade but to the position held. Nevertheless this programme is still incomplete, as most of the unions have remained hostile to the idea of occupations, fearing that it will compromise both the unity of the civil service and its foundations (union members are often organised by levels and by ministry).

There is also the issue of incentives and rewards for modernising efforts by management and staff. In ministries like Public Works where participation in the modernisation programme is an explicit criterion for the assessment of professional staff, the link between careers and the strategy of the organisation is clear to staff. In other cases, management can feel that they are being judged on criteria that do not genuinely measure their efforts. With regard to staff, France has not embraced the concept of performance-related pay, especially on an individual level. There are several reasons for this. In France, there is a conception that civil servants should not have a financial interest in their work; their motivation should not lie in their salary. Performance-related pay would have distorting effects such as over-emphasising commercial activities to the detriment of civil service activities. The natural reward for high quality work is thought to be career advancement and not money. All the same, group bonus schemes (collective rewards for modernisation) have been set up in certain ministries (Public Works). These are always pre-financed projects where a certain sum is defined in advance and handed over to the service which it is then free to use it for collective or individual rewards (provided the agency attains its goals). Under this system, there is no need to wait to confirm that real gains in productivity have been achieved before paying the bonus.

#### *An investment in forward-looking staff management*

In 1993, the Committee for the Reorganisation of Central Administrations (*Comité pour la réorganisation des administrations centrales*) reported that "the development of personalised and forward-looking human resource management as a support for all on-going programs" is the key element in the recommendations for the transformation of central administrations. One of the major constraints to this end, however, appears to be the timing dimension. That is, the changes often become complicated because the starting dates are negotiable, certain areas of specialisation are not

readily available in the job market, and relevant training programs are time consuming and costly. It is recognised that effective human resource management policies requires long-term and forward looking planning. To encourage forward planning, plans which link agency objectives to the requested resources in the agencies of selected ministries (e.g. Public Works, Interior) are now required to provide staff forecasts for each category of personnel and answer questions such as: "What body of personnel can be cut back and why?"; and "What new skills are necessary and how can they be identified?" Resource plans are expected to be both quantitative (numbers of staff per category) and qualitative (creation of necessary skills in conformity with agency strategy). By analysing such plans the central administration takes charge of sector-wide planning for recruitment and training for new areas of specialisation.

### *Evaluating the effects of human resource management reforms*

A French team, from the Centre for Research on Qualifications (*Centre de recherche sur les qualifications*) attempted an evaluation of the effect of HRM reforms on actual management practices. They concluded, however, that the main innovations in HRM, only generalised across the civil service at the beginning of the 1990s, were in too early a stage to evaluate, particularly as to their effect on careers. At present, it is only possible to take note of the perceptions of those involved in the reform process and anecdotes from public servants.

Assessment is thought to be all the more difficult because this is an area which attracts little attention from members of Parliament. Further the assessment indicators have only rarely been defined before reforms are put in place. The only indicator that is often used to measure operational success (excluding quantitative indicators of number of training days, devolved decisions, etc.) is the degree of delegation of human resource management to management. But it must also be noted that management are not solely responsible for this indicator: they have little incentive to take on responsibilities *vis-à-vis* their fellow workers when they are not evaluated on this point. An examination of assessment criteria shows that the quality of human resource management programs is rarely included in grading tables (there are fairly vague formulas of the type: quality of human relations or communication within the agency). In any event, human resource management programs have not been accompanied by a systematic study of indicators which would allow review.

*Effect or efficiency:* It is almost impossible to determine whether this improvement in the service provided is the result of human resource management measures or other factors. It is, however, possible to argue in reverse: (a) before the policy of human resource management there was no appreciable improvement in service provided; (b) this improvement is only possible with staff collaboration.

There is concern, however, that in France devolution will probably bring with it staff cuts or stabilisation, because it goes hand in hand with the reorganisation or streamlining of agency structures on the local level.

*Effect on the "concept" of human resource management:* HRM is no longer seen as an employment bonus, falling into the almost charitable sphere of management, but rather as a management tool. For example, in the use of the employee report in France, the data on absenteeism and workplace accidents is analysed annually by management and staff and is being used as an important strategic tool to find the best solutions for work practices.

*Effect on union dialogue:* Managers in the public service believe devolution leads unions to strengthen their local presence which in turn encourages them to feel more involved in devolved agency strategies.

*Effect on team work practices:* HRM is being set as a priority programme across the public service, its first result can be found in new collective work practices, especially cohesive management teams, and better internal communication (newsletters, suggestion boxes, etc.) in organisations where such initiatives hardly existed before.

*Giving line managers greater flexibilities:* In France agencies are responsible for the management of operating staff, the choice of motivation programs and the reassertion of the value of human resources, but career and promotion rules remain at the national level, limiting the amount of flexibility ultimately available to line managers. This is particularly the case as regards redeployment of staff, creating new positions, and recruiting management staff.

*Managing the change process:* all agencies do not modernise at the same rate creating tensions and necessitating the management, in a civil service which remains unified, of differences in working conditions, limits on action, and careers. It appears that modernisation plans are sometimes more attractive to management and staff where performance-related pay has allowed improvement of the staff situation (e.g. Ministry of Public Works); but they can be less attractive because it sometimes requires staff to accept requirements concerning results, productivity and assessment which they could avoid by remaining in the more traditional areas of the administration. In addition, some managers and staff feel that the financial rewards are not really equal to the change in work practices. None of the regional departments of the Ministry of Public Works in France wanted to sign performance contracts because the predicted collective rewards (300 000 FF per year for an average 1 000 staff for 3 years) were not sufficiently attractive for them to abandon a less stressful work environment.

*Motivating middle management:* Demographic factors and career structures have led to a ballooning in the number of middle managers. The equivalence of hierarchical level, level of training, duties and pay has caused an increase in the number of hierarchical strata. The entire system is being unbalanced today by a new style of management which involves fewer hierarchical levels, and which often sandwiches middle management between a "new look" upper management (more managerial and strategic) and a staff which enjoys greater autonomy in the effort to improve productivity.

## Conclusions

It is clear that the approach to human resource management policies in the French civil service will be crucial to the success of more general managerial devolution. The new roles devolved on the central administrations will require significant change in their hierarchical structures, with the numbers of managers becoming overwhelming. They will also create a demand for new skills requiring personalised forward-looking people management, allowing them to make the most of the potential for mobility between central administrations and agencies with devolved authorities. This in turn will allow them to draw the full range of quantitative and qualitative conclusions on this profound change in central administrations. As measure of the amount of high level support given to devolution, the Committee for the Reorganisation of Central Administrations (*Comité pour la réorganisation des administrations centrales*), reporting directly to the Prime Minister, was set up in 1993 to promote and co-ordinate devolution processes in all ministries.



Despite progress at the central level particularly as regards changing the approach to career and performance management, implementation at the local level (at the level of departments and agencies) remains weak. One study carried out at the Ministry of Public Works indicated that human resource management still rests primarily in the domain of personnel departments." Moreover, the findings show that much more work needs to be done on the kinds of flexibilities managers need in order to manoeuvre effectively, as well as to hold them accountable for performance of HRM activities. There are several suggestions as to why this may be the case. First, there is the personal risk for line managers in managing and evaluating their colleagues in an environment which has traditionally avoided personal confrontation and left personnel problems to specialised services such as the personnel departments. This problem is amplified because middle-level managers do not believe they have room to manoeuvre when they do carry out evaluations because monetary rewards are small and sanctions are difficult to apply. There is also a significant fear on their part that they will not be backed up by their superiors in the event of conflict. Finally, because the criteria used to evaluate managers almost never incorporate the quality of their work as people managers, there is no incentive to overcome any of these obstacles.

The current policy for human resource management reform carries a strong message that reforms must take into account the people who are expected to implement the reforms and carry out the work. The current workforce is demanding a part in developing strategies for reform, as well as just being expected to carry them out. Moreover, there is an important lesson in France's previous experience with public management reform where a highly technical and centralised approach was not enough to ensure success. Whether, however, reality will keep pace with the rhetoric is still unclear. For the moment, the old rules of the civil service and the new principles of human resource management, adapted to modernisation, exist side by side. Certain promotions take the new criteria into account, while others respond to political, union and social (seniority) compromises. Because opinion is strongly divided, it is difficult to make any predictions about this situation. It is a fact that, in France, modernisation implies strong central guidance, without which the traditional compromise mechanisms between ministries, corps and unions may prevail.

## NOTES

1. This movement did not affect all ministries - far from it. It was for the most part the Ministries of Public Works, Defence, Health and Labour which were concerned. However, the lessons learned during this period influenced the entirety of the administration.
2. Devolution does not always involve giving more authority to directors of line agencies, but is aimed at streamlining management by bringing it closer to managers. For example, entrance exams are organised at regional or departmental level, on the assumption that these levels are more aware of their needs and job vacancies than the national level. Transfers are to be managed in the same geographical area, making the process less cumbersome.
3. With regard to the remarks made in this text on the devolution of personnel management and discretions in the French case, it must be understood that overall the statutory rules have not changed. Directors of devolved line agencies are not free to create positions, nor to recruit, nor to declare positions redundant or promote personnel. The new freedoms consist of (a) bringing the management of statutory decisions closer to line agencies, for example by devolving the organisation of public recruitment examinations or certain decisions concerning staff management to different levels depending on the ministry, either departmental or interdepartmental; (b) giving department heads the possibility of proposing changes in the structure and qualifications of positions to the central administration. For grade A civil servants (top or middle management) the bulk of decision-making remains at the national level.
4. The French civil service is organised into 4 categories, D operational staff, C technical assistance, B junior management, A management.
5. In France civil servants are recruited before training and undergo "initial" training in State schools, which for management lasts 2 to 3 years on average.
6. France is special in that it has a two-fold structure at devolved agency level: a local office for each ministry and a Prefect representing the whole government and responsible for the co-ordination of local offices.
7. J.C. Thoenig, *Les administrateurs civils face à leur carrière*, Documentation Française, 1992.
8. In this case the specific statutes governing the Ministry of Public Works allowed wide room to manoeuvre, which is not the case for all ministries. The amount of variation has been from plus to minus 15 per cent of total bonuses which, depending on the hierarchical level (it concerns top management), can range from 50 per cent to 10 per cent of the base salary. The variations have thus been significant.
9. Starting in 1983, the assessment interview has been tested in certain line agencies. The results of this experiment have been evaluated and referred to a working group which includes the unions and which, in 1985, produced a guide for the assessment interview directed to reviewers and reviewees; it was designed to help them treat the assessment interview as a management tool. In 1986 a training

programme for the assessment interview was set up for all senior staff and a part of the service staff. In 1988, the assessment interview was sufficiently well-known in the ministry for it to be made a mandatory practice for all staff in a circular.

10. Indeed an assessment carried out in 1990 by an inspector general, Philippe Lapillonne, at the request of the personnel department showed that there was no single ideal solution. In certain line agencies the assessment interview is used immediately as the basis for grading if all staff are satisfied. Other agencies have preferred to separate the assessment interview and grading in time so as to make the interview appear more objective, measuring results and explaining the reasons for discrepancies, while grading is also giving way to individual and attitudinal judgements.
11. Evaluation de la fonction personnel, Stratema, 1991.



## HUMAN RESOURCE MANAGEMENT REFORMS IN THE PUBLIC SERVICE OF THE NETHERLANDS

by Bo Smith

### Human resource management at the central level

In the Netherlands, it is the Ministry of Home Affairs, that has central responsibility for the management of human resources in the public sector. Until the 1980s, personnel policy was centralised. In the following years, however, HRM has been decentralised parallel to, and in some ways integrated with, overall reforms of the Dutch public sector.

The Ministry of Home Affairs is organised in a number of Directorates of which the directorate for Management and Personnel is responsible for HRM. The Directorate consists of two policy directorates, one concerned with conditions of employment in the public sector and the other with personnel management, and a number of agencies. The Director-General reports to the minister through the Secretary General of the ministry.

Until April 1993, the Ministry of Home Affairs was in charge of negotiations with the Unions about the general framework, the primary and secondary working conditions, for the entire public sector. In principle, pay schemes, pensions and the conditions of public employment have been fixed through negotiations at the central level. Decisions on detailed day to day HRM, (e.g. hiring, promotions) and on organisational design, were taken at the decentralised level.

The number of persons employed has also been decided at the central level. The "consumption of human resources" has been controlled both through the budgets, that limit the amount of wage expenses, and through centrally fixed ceilings on the personnel numbers, the "establishment posts" of each institution.

In the middle of the 1980s, it was decided to decentralise HRM. This reform has been followed by a comprehensive reorganisation of central government, for which the Ministry of Home Affairs has been the "project ministry". The decentralisation moved HRM responsibilities and tasks from the Ministry of Home Affairs to the 13 line ministries. It was the intention to decentralise further to the agency level and even to the line managers. In reality, decentralisation has been to the director level, that is to between 70 and 300 managers of institutions. The decentralisation was evaluated by the Ministry of Home Affairs, through interviews with directors, as successful. The decentralisation reform was initiated from the Ministry of Home Affairs and, accordingly, decentralisation has been a top-down process.

One result of the decentralisation has been a reduction of staff at the central level in the Ministry of Home Affairs. At the same time, there has been an increase in HRM staff at the directorate level. Many directors want to have their own staff responsible for HRM, typically undertaking advisory functions in connection with hiring, training and salary systems.

In 1993, a new and important reform was carried out. Negotiations on pay and conditions of employment for the public sector were decentralised to eight major functional sub-sectors or branches. Important elements of HRM policy will in future be decided in these sub-sectors and not by the Ministry of Home Affairs. There will be a cross-sector co-ordination in which the Ministry of Home Affairs can be expected to play a leading role.

The philosophy of the decentralisation reforms has several elements. Decentralising to the line manager level rests on the belief that it is the manager at the "floor level" who knows best how to use personnel resources effectively. Decentralising negotiations to eight sub-sectors reflects the reality that the public sector is so vast and covers such different functions and different categories of employees that it is inefficient to maintain central negotiations. If the public sector is to function and to be managed more like the private sector - and this is an important goal of the overall reforms of the Dutch public sector - then it is necessary to decentralise negotiations. Or, put in other words, the public sector is not a monolith that can deal with all its employees in a uniform way.

After the reforms, the following elements of HRM have been kept at the central level, under the supervision of the Ministry of Home Affairs:

- The grading or classification system. This system classifies jobs in the public sector on the basis of common standards. The system covers all functions in the public sector and determines the wage level at which an employee can be placed. It also means that a person cannot be moved to a job with a lower classification without his or her consent.
- The salary systems are and will also in the future be decided at the central level as part of the central negotiations.
- Pensions and social security.
- Conditions of employment.
- Requirements to employ a certain ratio of "special groups" (ethnic minorities, disabled persons) and to keep a balance between male and female employees.

The ceilings on personnel numbers are abolished. This means that in future, only the budget limits the number of personnel hired. There will, however, be a central reporting system allowing the central ministries (Home Affairs and Finance) to control the number of persons actually hired at the decentralised level.

The negotiations in the eight sub-sectors will be limited by a government decision on the "economic ceiling", that the negotiations ought to respect. If the ceiling is not adhered to, then the sub-sector concerned must finance the increased personnel costs within the total budget of that sub-sector.

One HRM area that has become more centralised is top management recruitment. Starting in 1992, a system has been introduced whereby line ministries have to report vacancies for top positions, down to director level, to the Ministry of Home Affairs. Through a matching system, the Ministry tries to increase mobility at the top level. The idea is that qualified people from other ministries should have the same access to vacant top positions as applicants from within the ministry where the vacancy occurs. It is the aim of the Ministry of Home Affairs that the increased mobility will be a

step towards creating a more coherent civil service and improving co-ordination between ministries. The reform is also connected with efforts to create operating agencies.

There is only a limited use of performance appraisal. It is recommended by the central ministries, but the individual ministries and institutions are entirely **free** to decide for themselves whether to introduce it or not.

Flexibility in pay is possible within limits of plus or minus 10 per cent in relation to the pay scale. The use of this flexibility is problematic, however, because the use of performance appraisal is so limited and so the pay variations cannot be based on a systematic appraisal of performance. To base it on "market pay" is an alternative, but is not regarded as entirely realistic.

The union reaction to the decentralisation has been to accept it and to implement the necessary changes in union structure. The decentralisation of negotiations to eight sub-sectors **has** been especially important to the unions. Also the decentralisation to directorate level of a number of HRM decisions **had** an impact on the unions and they have been wary of losing influence. They have, however, supported the reforms.

At the initiative of the Ministry of Finance, a number of pilot projects with strategic planning were carried out in the 1980s. **An** element of this has been to integrate HRM in broader strategic management. Initiatives to establish a general strategic planning system have not been taken though. It is the responsibility of the individual ministries and institutions to decide whether such a system should be introduced and whether HRM should be an integrated part of it.

After decentralisation, the central ministries will continue to monitor the decentralised level. The central ministries maintain detailed information on salaries and other types of rewards. The central ministries, especially the Ministry of Home Affairs, also keep close contact with the decentralised level through regular meetings with heads of personnel departments and close contact at the director level. It is important, that there are a number of "feed-back loops" making it possible to monitor how the decentralised responsibilities are handled.

On the agenda for the future for the central HRM agencies are the following items:

- Top management: how to create mobility and a coherent civil service **and** at the same time decentralise?
- The image of the public sector in the labour market. It is essential for the public sector that it is regarded **as** an attractive place to work, and that it can compete with the private sector in order to be able to recruit qualified personnel. **In** this connection, it is considered a problem that the image of the public sector is not as positive and attractive now **as** it used to be in the 1960s and '70s.
- The growing number of older employees due to the huge intake of personnel about 20 years ago. How to run the public sector with a staff that has a **high** average age?
- Establishing a more elaborate system of planning and control in the HRM area and integrating it in strategic planning **and** management.

As a general trend, the government has been pursuing a policy of "normalisation" of its employer status for the public sector, bringing it more into **line** with the private sector.

## The Central Bureau of Statistics

The Netherlands Central Bureau of Statistics (CBS) is an independent, public institution, that produces all official statistics concerning the Netherlands. It is headed by a Director General, who reports administratively to the Minister of Economic Affairs and statistically to the Central Commission for Statistics whose members represent users and suppliers of statistical information.

The CBS has a staff of about 2 500. That is a significant decrease from about 3 500 ten years ago. The institution is financed through the state budget, only about 3 per cent of income is generated through sales of services or data. The organisational structure goes twenty years back, when four directorates were formed. This structure contains as many as eight hierarchical layers.

In recent years, the structure of the CBS has to an increasing degree clashed with more modern conceptions of management and with demands for increased effectiveness. At the same time, the CBS has been confronted with more competition and with a growing demand for statistics. The pressure for organisational reform and a more flexible and effective production has therefore increased.

Against this background, a comprehensive reform of the CBS, "operation TEMPO", was launched. This includes the following elements:

- a new organisational structure;
- a system of contract management;
- a system of management and human resource development.

In the new organisational structure, there will be four product-market divisions and a number of support divisions. Each division will have a number of sectors.

The change of organisation has far-reaching HRM consequences:

- The number of "managers" is being reduced from about 350 to about 60.
- 1 500 job descriptions are being reduced to 100, increasing the mobility of staff.
- Half of the staff of the CBS has to be trained to take on new tasks and about 200 have to be reskilled. As an illustration of the extent of the changes in tasks, a major function like simple data entry work, which presently employs 500 persons, will gradually disappear.

The CBS top management works under a number of centrally dictated restrictions when carrying out a reform like TEMPO. First, both budgets and personnel numbers are fixed by the government.

Second, the centralised grading and job description system means that personnel placed in a specific group cannot be moved to another group against their will. Mobility is therefore, at least potentially, very limited. At the same time, due to reductions of staff, flexibility through recruitment of new personnel is equally limited. The grading system severely limits the possibilities for organisational reform and for changes in the use of human resources.



Third, an organisational reform has to be negotiated with union representatives on the "personnel committee". In practice, major changes of the organisation have to be accepted by the representatives of the personnel. The consequence is that the process is complicated and time consuming and the options limited to what is acceptable to the personnel.

Fourth, Dutch legislation makes it very difficult to get rid of staff who do not function in a satisfactory way.

On the other hand, top management has a number of freedoms in the HRM area:

- Design of new functions and recruitment of new staff. Although the grading system is a restraint, the experience is that the central ministries generally accept proposals for new functions.
- The flexible pay system allows management to give people who perform well an exceptional pay step and, in the course of the year, to give a small reward (e.g. a dinner for two) to someone, who has done something extraordinary.
- In the training area, decentralised freedom is total. For the CBS this is important, since the level of training is quite high.

The central HRM unit in the CBS has a mainly advisory function. The HRM unit will be part of the central staff in the new organisation. Day to day HRM responsibilities will be decentralised.

An HRM "infrastructure" has not yet been established. Most serious in this connection is that there is no systematic appraisal of managers and no management development program.

In the financial area, budgets are decentralised, with financial control at central staff level. Line managers accordingly have limited freedom to allocate financial resources.

At the line manager level, the present situation in the HRM area is characterised by what is seen as a rather limited freedom to manage. The following characteristics were mentioned:

- The flexible pay system has only a very small impact since resources are extremely limited. To enable it to be used as a tool to motivate, more money should be available.
- Hiring people is centralised within the organisation. Combined with few vacant positions, this limits the possibilities of line managers to build their own teams.
- It is not possible for the line manager to change the organisation of the unit. This limitation is due both to the grading system and to internal centralisation within the CBS.

The line manager can mainly influence the work of the unit through "soft tools" like encouragement, feedback on performance, small changes in the distribution of tasks and a dialogue with employees on the substance of the work. Allocation of training can also be used.

The CBS is introducing a system of "contracts" that will be the core of the management system. There will be contracts between the top management and the divisions and between the division management and the units within the division. And there will be contracts horizontally between units producing services for each other.

The following elements will form the contracts:

- A specification of the resources, both financially and in the form of human resources, that are available in the budget year.
- The achievements that the unit must reach. These will be specified as production, possibly quality indicators, and a number of other goal indicators.
- Collaboration with other units in the CBS.

The contracts will establish what is called "management by accountability". The intention is that within the framework of the contracts, line managers should have far greater freedom to manage their units in terms of both human resources and financial resources.

The process by which the contracts are written and decided on will be an iterative one. The first step is a "mission statement" by the director general. Following this, each unit has to draft contracts which are then "negotiated" vertically - and horizontally - in the organisation. The contracts can be disaggregated to the individual level within each unit, but this is not obligatory.

Interviews indicated that line managers may be sceptical towards the emphasis on management qualifications in the new organisation. Unless they are given substantial managerial freedom, line managers are likely to continue to believe that they should be experts in their field rather than managers. It will take time and resources to establish the contract system and, unless it contains a real decentralisation, it is feared that it may not be worth the effort.

### The Tax department

The Tax department is part of the Ministry of Finance. It is responsible for collecting all tax and customs in the Netherlands. It deals with private individuals, small, medium and large companies and taxpayers liable to customs and excise duties.

The department is organised into five divisions on the basis of "target groups", and a number of support units. Divisions and support units are responsible for co-ordination and supervision. Each division comprises a directorate and a number of units throughout the country dealing with every form of tax and activity relevant to its particular target group. This so called "integrated approach" is carried out by a team of experts covering the relevant disciplines. The teams form the basis of the organisation and each has between fifteen and twenty members. Each unit has between five and fifteen teams.

The total number of staff of the department is about 29 000. This is a reduction from about 32 000 several years ago. Expectations are that in the coming years, the Tax department will not have to reduce its staff further, but will have to increase productivity.

This organisation is the result of a total reorganisation of the Dutch tax administration since 1990. Prior to the reorganisation, the department was very centralised and the units were extremely specialised. The result was an organisation with too little flexibility and not enough market or customer orientation.

The decision to change the organisation was taken internally. The goal was to create a market-oriented, flexible and effective organisation. Decentralisation has been a central concept in this reorganisation, which has involved a number of elements:

- The new organisation was prepared in project groups covering the whole department.
- There were extensive consultations and negotiations with the unions. In the end, the unions agreed to the change of organisation, **as** will be described below. In the Dutch system, reaching agreement with staff representatives is a very important pre-condition for organisational change,
- In the new structure, management positions were filled about one year before implementation of the new organisation. In this way, heads of units could participate in the detailed planning of unit structure and in the recruitment of staff.
- The employees of the tax department were informed about the reorganisation in several ways, through meetings, videos, a special telephone number and through the unions.
- Special project teams were tasked with education, preparing new accommodation and assisting management with organisational design and hiring.
- The reorganisation was not combined with a reduction of staff; instead, all staff got positions in the new organisation. Although nobody had to be **fired**, a number of employees had to change geographical workplace. At the management level, the former heads of local offices were given posts **as** team managers, **as** deputy unit managers, or **as** unit managers, or they were allowed early retirement.

In the new organisation, the HRM function is organised at three levels:

- concern level: the Tax department Personnel and Organisation Directorate;
- division level;
- unit, e.g. local office, level.

**At** concern level, the task is to draw up the frameworks within which the lower levels may devise policy. With decentralisation, there is very limited administration at concern level and the emphasis is on policy framework and monitoring the implementation of HRM policy at the division and unit level. At division level, the HRM policy of the directorate and the sub-units is co-ordinated, guidance and advice is provided and implementation is monitored. Finally, it is the unit heads, who are responsible for conducting personnel policy at the micro level, that is at team and individual level.

The decentralisation of HRM has resulted in **an** increase in the resources spent on HRM. In 1984, there **was** one HRM senior staff member to 366 employees, by 1991 the ratio **was** one HRM staff member to 166.5 employees. The increase **has** been at the division and unit level and in particular at unit level.

The freedom of the Tax department in the HRM field is limited by legislation and by the HRM responsibilities of the Ministry of Home Affairs **and** the Ministry of Finance. These restrictions cover, as mentioned above, some of the **primary** and secondary working conditions that are regulated

through legislation. Second, salary levels are negotiated by the Ministry of Home Affairs; this means that the Tax department cannot set its own pay levels for newly recruited personnel. As an example, the department cannot match the wage levels in the private sector for "tax advisors" and has lost a number of highly qualified staff members on this account. Third, there are limitations on the extent to which personnel can be moved from one function to another, if the grades are different. This limitation very much complicates changes of organisation. Finally, the unions have a right to be consulted about reorganisations and this also limits the freedom of management.

On the other hand, the department can use several instruments in HRM. The flexible pay system means that top management can give an extra month's pay to middle and unit level managers who perform well. A system has been initiated through which the heads of units can get such a bonus, if they fulfil the goals set for their organisation. Second, the use of general career prospects is an important motivating force to be used by top management. Third, in the budget area, a decentralisation from the Ministry of Finance to the Tax department has taken place. From 1994, the department is given a global budget to be allocated to personnel or other running expenses as decided by the department itself.

The decentralised level, typically a tax unit, has been given increased responsibilities in the HRM area as a result of the reorganisation and the general decentralisation in the department.

- From 1994, the units have gained an increased budgetary freedom.
- Within limits, unit management can decide to increase staff or, on the other hand, choose not to fill vacancies.
- Vacancies at the "middle" level, including team-head level, can be filled without the permission of central level.
- Staff with university qualifications are hired centrally. In the future, however, all hiring will be decentralised to the unit level.

In spite of these limitations, there is much wider scope for management in the HRM area at the local level than before the changes in the organisation. Unit management can:

- change the organisation of the unit -- an example could be a change in the number of teams -- however, there is a minimum and a maximum size for teams;
- hire staff at the lower levels and -- in the future -- staff at all levels;
- reward employees who perform especially well -- the reward can be extra pay through the flexible pay system or it can be promotion to a more highly paid job, if there is a vacancy;
- stop wage increases for personnel who do not perform well, and even initiate a firing;
- conduct systematic assessment of staff members -- there is a system of periodic assessment-talks for all employees at non-management levels;
- allocate resources for education and training -- as the resources spent on training are quite considerable, this is an important tool for management;

- finally, management at the unit level decides the responsibilities and **tasks** of the individual staff members -- the quality and the attractiveness of the **tasks** is one of the strongest motivating factors and also has implications for career possibilities.

The Tax department has an elaborate planning system. Based on a corporate plan, there is an annual planning and monitoring cycle. In the corporate plan, the tasks of the department are described and the principles for implementing the plan in the various parts of the organisation are formulated. For each of the sectors, there is an annual plan drawn up **at** concern level, specifying production goals, personnel and other resources available, communication, accommodation, automation, **and** so on. The plan is further broken down to specify goals and resources at unit level.

The department also uses management contracts. There are contracts between the Director General **and** the heads **of** the directorates. These contracts mainly contain performance targets formulated within the framework of the corporate plan. It is the contracts and the corporate plans that together constitute the performance management system. At present the system mainly operates with quantitative goals, but it is the aim to strengthen the qualitative side.

Until recently, the department had its own HRM plan, but this has now been incorporated into the multi-year staffing plan, which is drawn up annually. The plan provides a general framework within which concrete aims and tasks can be established for the short term. It also specifies "service level standards" and "responsiveness to clients".

HRM is also an element in the corporate plan at directorate level **and at** unit level. Based on the multi-year **staffing plan**, the decentralised plans contain sections describing the implementation of personnel policy. Themes like remuneration, rewarding, employment of "special groups" and absence due to sickness are included. Generally, the plans describe how the division or unit **should** implement the personnel policy drawn up at concern level.

The planning system goes down to the team level. However, within the units, the plans are often broken down to the individual level. There is a systematic annual link between the plans and individual assessment talks. The planning system is **part** of the basis for the assessment of the managers.

The reorganisation was prepared by extensive training programs. Everybody with a management responsibility in the **new** organisation was trained in a program that covered all aspects of the manager's role. The department also has permanent management training programs:

- management skills courses, among these a course in HRM;
- a management development program;
- a coaching system, where internal consultants coach managers;
- an assessment centre;
- individual programs, **among** these the possibility to give psychological assistance to managers.

There is a systematic appraisal system for the management levels. The appraisal system includes HRM elements like training activities, accordance between establishment **posts** and actual staffing, and absenteeism.

Parallel to the reorganisation and the decentralisation, a monitoring system **has** been established. The targets set out in the planning system are closely monitored, some on a monthly basis, others every quarter and some on a yearly basis. Quantitative data are produced and there are fixed limits to the variation allowed on the following targets or areas:

- establishment places/staff levels;
- absenteeism due to illness;
- job appraisal interviews performed;
- salary differentials;
- permanent education;
- mobility;
- child-minding facilities;
- ethnic minorities' representation on staff;
- percentage of women to men;
- targets on hiring of disabled persons.

In addition, information is requested on a number of matters, for which no objectives have been set:

- staff turnover;
- part-time work;
- parental leave;
- re-entry schemes;
- external and internal intake of new staff.

The unions representing the employees in the Tax department have been involved in the reorganisation from the beginning. There were extensive consultations and negotiations and, in the end, the unions fully accepted the changes. This acceptance was based on a number of conditions:

- maximum openness in the process;
- a demonstrated willingness to take the unions seriously;
- involvement from the very **beginning**, even in the "thinking phase";
- a guarantee that no-one would lose employment and no-one would have their salary reduced;
- a special retirement and job shift program;
- an extra bonus for employees who had to move their workplace from the eastern part of the country to the Randstadt area.

The decentralisation has had important consequences for the unions. It is no longer possible for the unions to maintain a centralised structure and it **has** proved difficult for them to exert influence in a decentralised structure. As a principle though, the unions welcome the decentralisation of personnel management.

The unions generally have a positive view of the changes. It is seen as very important that the whole culture of the organisation **has** changed. There used to be a culture that **was** almost "military", very dominated by rules and by central authority. In the new organisation, there is a greater willingness

to take responsibility at the decentralised level. In this connection, the unions stress that "co-partnership" must be an element in the culture also at the local level. It is too early to say whether the decentralisation will lead to differences between HRM in one part of the organisation compared to another. For the unions, it is essential that such differences do not harm individuals.

The unions take a very positive view of the top management attitude towards consulting with the unions and keeping them informed. This is a "tradition" in the department. The flexible pay system is seen as something negative. The unions can only accept such a system if it is made more transparent and if it is used in a way that is acceptable also to those who do not get anything. The unions' advice is: make the system open, easy to understand, based on clear procedures or abolish it.

The evaluation of the reorganisation by the management of the Tax department is quite positive. At top level, it is seen as a necessary change in order to meet the future demands of the citizens and the political system. It is pointed out that a number of countries have reorganised their tax administrations along similar lines. A very important goal is to increase the efficiency of the organisation, not to be able to reduce expenses, but to increase the level of quality and service without an increase in costs. At the decentralised levels of the organisation, managers see the decentralisation as something positive. In the HRM area, managers wish to obtain more management freedom; for example, freedom to give new staff with special skills market pay and more money for flexible pay. The planned decentralisation of the budget responsibility and the competence to hire is welcomed.

Since the reorganisation of the Tax department was started in 1990, the process has been evaluated every year by external consultants, who have reported to Parliament. In the HRM area, the consultants' reports take the view that during the reorganisation programme, there was too much emphasis on the individual and provision of secure legal status, while insufficient consideration was given to the consequences for the functioning of the organisation. The consultants recommended that in the future the basis of personnel policy should be the efficient operation of the department. Another point made by the consultants, in their second report, is that "the process of change in the Tax department is intended not only to create a new organisational structure, but also to bring about a radical adjustment in the culture of the department". This was followed up in the third report: "In respect of the quality and style of management, we are of the opinion that managers at the local level are still not acting in a sufficiently "managerial" fashion and are sometimes avoiding responsibility, preferring to pass it on to someone else". The department has taken a number of initiatives in the reorganisation process to meet these observations.

### Concluding remarks

In the case of the Netherlands, the public sector has been the object of wide administrative reform in recent years. The reforms have covered a broad spectrum of administrative and management questions. The reform of HRM should be seen as a part of this more extensive reform of the public sector. While this does not imply that all the reforms appear as one strategic plan for the public sector, it means that the philosophy and the aims are general.

There are a number of elements in this basic philosophy. One is to "normalise" the public sector, meaning that the historic differences between the public sector and the private sector should be reduced. In the HRM area, this means abolishing central and uniform rules on working conditions, a trend towards more branch-specific HRM, more flexible pay systems and increased mobility. A second element is decentralisation. The belief is that if the public sector is to function effectively, then managers at the line level should have a wider scope for management.

The aims of the reforms, including the HRM reforms, are to provide market orientation, to increase flexibility and effectiveness and to create more attractive workplace in the public sector. As in a number of other countries, these aims are basically a response to the problems that faced the public sector after a period of growth, when confronted with a combination of demands for cost-cutting and increased production and service.

At the central level, the reforms are mainly aimed at creating more freedom at the decentralised level. It is significant that the ambition to have a coherent and co-ordinated civil service is still present and that this will be done through centralisation at the top management level. It should also be noted that the central ministries intend to monitor the consequences of the decentralisation.

The ministries, directorates and institutions are responsible for decentralising from the ministry or directorate level to the unit level. How and to what extent this is done may vary very much, as is shown in the case study. Since decentralisation may have only a limited effect if it is not done to the line manager level, the Netherlands could be described as being in the middle of HRM reform.

Finally, the integration between HRM and organisational strategy and planning generally is still limited. Even in the case of the Tax department, there is not a full integration. As the reforms continue, it is the goal to link HRM and strategic management, and this seems to be an important item on the agenda for future reform in the Dutch public sector.



## HUMAN RESOURCE MANAGEMENT REFORMS IN THE PUBLIC SERVICE OF NEW ZEALAND

by Pat Walsh

### Introduction

Human resource management in the New Zealand public sector is governed by the provisions of the State Sector Act 1988. This Act has decentralised control over the public sector employment relationship to the heads of government departments. The decentralisation of HRM cannot be considered in isolation from other developments in the New Zealand public sector. It was initiated as part of a wider programme of public sector restructuring that began under the Labour Government in the mid to late 1980s and continues under its National Government successor. The restructuring programme in New Zealand, including the decentralisation of HRM, has proceeded according to a consciously designed strategy. It has not been an ad hoc process driven by political or managerial expediency, although this is not to say those factors have not applied from time to time.

The restructuring model gave great weight to the vital need to reshape lines of accountability in the public sector. This made financial management reform of central importance. The Public Finance Act 1989 is the second plank of the restructuring process. Financial management reform turned on the distinction between inputs, outputs and outcomes. Inputs are the resources allocated to departments by the Government. The Government allocates inputs in order to buy specific outputs from departments. Outputs are the goods and services produced by departments -- be they policy advice, training programmes for staff, a health service, an education system, a defence system, programmes to preserve endangered plants or creatures, roads, bridges etc. Outcomes are the impact of these outputs on the society -- higher or lower infant mortality rates, better or more poorly educated children, more or less healthy people, higher or lower road deaths, a more or less polluted environment. Governments are held accountable (by the electorate) for these outcomes but not the outputs. The efficient production of outputs is the responsibility of the chief executives of government departments. Chief executives and Ministers have a contractual relationship in which the Minister agrees to provide certain inputs so as to purchase specified outputs. Only those outputs specified in the purchasing agreement between the Minister and the department are funded and the chief executive is responsible for ensuring they were in fact produced by his or her staff. This means that chief executives had to be made employers of their staff, if they were to be held accountable for what they did and produced. Thus, decentralised HRM was a consequence of wider reforms rather than pursued in its own right, but it was central to the reform programme. The wider programme of reform could not have been implemented without devolving HR authorities down to chief executives.

Prior to 1988, the Government's central personnel agency, the State Services Commission (SSC), was the employing authority of all staff in the public service and held all HR authorities. The public service operated as a unified career service. Public servants were eligible for appointment to any position in the public service and were protected by the requirement that for any position above the entry grades an outsider had to demonstrate "clearly more merit" than an applicant from anywhere in

the service. An appeals system enforced this provision. Public servants were employed under conditions provided in occupational agreements that applied across the service. Service-wide occupational classification and performance appraisal systems were in operation. Conditions of employment were negotiated by SSC and the main public sector union, the Public Service Association (PSA). Those negotiations were governed by the requirement that conditions of employment be fairly comparable with those in similar private sector occupations, although market factors could modify that. This gave negotiations an ordered and predictable character. Disputes over the negotiation or interpretation of those agreements could be resolved by compulsory arbitration if necessary. Salaries for heads of departments and some deputy heads were determined by a Higher Salaries Commission based on relativity with private sector equivalents,

Although the formal decentralisation of HRM occurred simultaneously with other reforms, there had in fact been some limited devolution prior to the State Sector Act 1988. As the public sector grew in size and complexity, it had become impossible for SSC to carry out all the HR responsibilities assigned to it. SSC had begun to delegate many of the day to day HR authorities to departments, but these remained delegations and could be withdrawn. Moreover, these delegations were limited and SSC retained a determinant role in the management of public sector HR. In particular, SSC retained complete control over the negotiation of employment conditions.

The impetus for reform of this system was political. The Labour Government, elected in 1984, came in with a determination to restructure the public sector. This is not the forum for an account of Labour's analysis of the need for public sector restructuring. But, in sum, Labour believed that the public sector had become inefficient and unaccountable and moved to remedy this. Although HR was not heated separately from the wider reform programme, Labour did have particular concerns about HR, and especially the process of negotiating employment conditions. In its first two years in office, it faced a number of major industrial disputes, almost all of which ended unhappily for the Government. Labour resolved to reform public sector industrial relations. It was particularly determined to remove the availability of compulsory arbitration. The Government believed that any wider policy programme of fiscal restraint could always be undone by arbitrated pay settlements over which it had little control.

SSC was the bureaucratic agent of Labour's reforms. Although Treasury played a role as did the Prime Minister's Department, the development of the State Sector Act 1988 was the responsibility of SSC. In turn, Treasury was responsible for the Public Finance Act 1989. It should be noted that there was no involvement of senior officials from other departments in the development of the State Sector Act. There was certainly no process of negotiation of the scope and terms of the changes and most officials, outside the few directly involved, were unaware of the contents (even the existence) of the legislation until its introduction into Parliament. Doing it this way meant that there was no possibility of the Government's objectives being compromised, while the enshrining of their reforms in legislation gave it a force that other measures would have lacked. The State Sector Act took effect on April 1 1988 and there was no sequencing of its application, either by departments or functions. It was applied right across all government departments at the same time.

#### *The relationship between the State Services Commission and departments under the State Sector Act 1988*

The State Sector Act 1988 overturned the long established HR system. It established the position of "chief executive" of government departments, employed on a five year renewable term, and made chief executives the employers of their staff, depriving SSC of its 75 year role as employing

authority of all public servants. Overnight, chief executives took on the HR responsibilities previously exercised by SSC. Departments were suddenly required to employ HR staff, acquire HR expertise, develop HR policies and put them into practice. Chief executives would be held to account for their performance in HR as in other fields.

But the State Sector Act did not cut departments loose entirely. Some central constraints on HRM autonomy continued and SSC retained a significant role. The Act constrains the chief executive in the appointment of staff. Vacancies must be advertised in a manner which allows suitably qualified persons to apply. Chief executives are obliged to appoint the person "best suited" to the position and to notify all appointments to existing departmental staff. Departments are required to establish an appointments review process available to any unsuccessful candidate from within the department. This process must be approved by SSC although the department carries out the review itself without any external monitoring. Other legislation, the Employment Contracts Act and the Human Rights Act, set substantive and procedural standards in the area of discipline and dismissal. Other legislation applying to all employers regulates areas such as occupational health and safety, minimum wage levels, minimum sick leave entitlements, holidays and so forth.

The Act also obliges chief executives to be a "good employer". This requires them to provide good and safe working conditions, to appoint staff impartially and to provide opportunities for staff to develop their abilities. It also obliges chief executives to develop and implement an EEO programme and to have particular regard to the needs of women, Maori, ethnic minorities and workers with disabilities.

SSC retained a role in a number of areas. It was required to promote and develop personnel policies for the whole of the public service and to promote, develop and monitor EEO policies and programmes. SSC monitors departmental EEO plans and may establish standards to be met in the plan. The other significant constraint exerted by SSC is through its role in negotiating the employment contracts for chief executives and approving those for senior executive service positions.

SSC was assigned a major role with regard to chief executives. It appoints them (and decides whether their appointment is to be renewed), negotiates their conditions of employment and reviews their performance annually. The performance agreements of chief executives are negotiated with Ministers. They are not public documents but they appear to be largely based on the objectives set for the department in its corporate plan. SSC's role in reviewing the performance of chief executives gives it an opportunity to ensure that each chief executive is complying with their statutory obligation to be a good employer. The process of reviewing chief executive performance is still being developed. The good employer area is one in which Arm performance criteria have been established more recently. It is claimed that the threat of not having their five yearly contract renewed ensures chief executive compliance. Sceptics note that in the years since the State Sector Act established the five-year renewable contracts for chief executives, only one chief executive has not been renewed. However, SSC sees its review of chief executive performance as forming a vital link in an accountability loop for it is through this process that SSC secures the information it needs to fulfil its obligations with regard to personnel practices and EEO, as well as a wide range of information about other matters.

Perhaps the major role exercised by SSC was through its continuing responsibility for negotiating conditions of employment for all employees in the public service. The Government decided in 1988 to leave that responsibility with SSC because it doubted the ability of departments to take this role on successfully immediately following the passage of the State Sector Act. In most cases, departments had no industrial relations expertise and the Government wanted to ensure that

departments did not jeopardise its fiscal stance. Although it was required to consult with chief executives in carrying out this role, effective authority lay with SSC. SSC had the authority to delegate that responsibility to chief executives, but did not do so until the 1992 negotiations.

Between 1988 and 1992, the negotiation of employment conditions remained under tight control by SSC acting as the agent of the Government, which established a special cabinet sub-committee to lay down policy for public sector employment negotiations. Typically, SSC and the PSA would begin negotiations in a number of departments and wait until a breakthrough became imminent in one set of negotiations. All attention would then focus on those negotiations until a settlement was reached. That settlement would quickly become the standard for the whole of the public sector and be disseminated throughout all departments. There was some flexibility on some particular conditions of employment which could vary to some degree from one department to another. But overall, the process delivered, by a very different route, outcomes which differed little from the avowedly centralised and uniform system of the past.

Resentment grew at the tight central control over employment negotiations. It was argued that this was at odds with the philosophy behind the State Sector Act and particularly with the role of chief executives as employers held to account for their performance in this area. How could this be so if a major part of the employment relationship remained outside their control? HR managers became increasingly frustrated at their own lack of control over negotiating the employment conditions of their own staff. In 1991, SSC decided to delegate negotiating authority to chief executives for the negotiations the following year. The Act required chief executives to exercise that authority in consultation with SSC, a complete reversal of the 1988-92 situation. The negotiating authority of chief executives was a delegated one and could be withdrawn by SSC. SSC remained the agent of Government and the Government continued to take as close an interest as before in public sector employment conditions. SSC thus laid down and enforced the Government's constraints on the negotiating freedom of chief executives.

The chief requirements from the Government were that bargaining outcomes had to be "fiscally neutral" (that is not cost any more), achieve reductions in potential redundancy liabilities, achieve savings in other areas where this was possible and ensure there was no flow-on effect to other departments from any provisions in their collective contract. Although negotiating authority was delegated to departments, SSC still played a watchdog role in the negotiating process itself. Departments had to get clearance before the negotiations were completed and SSC retained a representative on the negotiating panels.

All three departments in this study expressed some degree of frustration at constraints on their negotiation of employment conditions. All those interviewed understood that these constraints derive from Government rather than directly from SSC. There was also an appreciation that in the public sector, the Government will always set limits to what can be negotiated. Another perception of the situation was that the Government as sole shareholder has every right to act in this way. Nonetheless, it remained a source of frustration directed at SSC as the agency responsible for ensuring that departments comply with Government policy. The opinions of those managers interviewed varied as to whether SSC takes a more active role than the situation warrants. Union representatives tend to see SSC's role as excessively interventionist.

The 1994 negotiations operated differently. SSC's delegation of authority to chief executives in 1994 was not as specific and far less prescriptive than in the previous set of negotiations. There were two reasons for this. One was developmental, in that it had always been intended that over time departments would become less and less constrained by direct SSC oversight. The delegation of

authority to chief executives in 1992 had been an important step in that direction. Now this was taken further. But, secondly, it was also judged that the time ~~was~~ tactically right. Having achieved reductions in redundancy liabilities in 1992-93, and aware of growing pressure from staff for a wage increase, the Government loosened the reins for 1994 and gave departments more discretion in the negotiating process. SSC retained its role in approving settlements or referring potentially difficult settlements to the cabinet sub-committee. It was always clear that settlements had to be within the confines of government policy but the parameters of this policy were not laid down and enforced so directly. SSC played a less active role in negotiations themselves. Departments were much more in control of their fate in 1994 than in 1992-93.

Since 1991, negotiations have been conducted under the provisions of the Employment Contracts Act. This legislation completely overturned the existing system of industrial relations which was established in the 1890s and which, although ~~modified~~ since then, still bore the ~~stamp~~ of its original structure. The Employment Contracts Act made trade union membership voluntary and prohibited the negotiation of any closed shop arrangements. ~~The~~ Act deprived trade unions of their exclusive right to negotiate on behalf of their members. Employees were given the ability to choose an alternative bargaining agent. Employers are obliged to recognise the duly authorised bargaining agent(s) of their employees but are not obliged to bargain with them. They are, however, not permitted to bargain with any other agent. The Act introduced a system of formal contracting as the basis of the employment relationship. Each employee is able to decide whether to be employed under an individual or collective employment contract. Since employers are also ~~free~~ to decide whether they wish to employ their staff on individual or collective contracts, the final choice and the exact combination of individual and collective employment contracts in a workplace is a matter of negotiation. It is quite possible for some employees to stand aside from the enterprise collective contract and opt for individual contracts. In those circumstances, employers almost invariably refuse to negotiate any conditions that differ from those in the collective contract.

It is clear that departments do not feel excessively constrained by legislative requirements such as the good employer obligation, appointments procedures and the requirement to have a code of conduct. They feel they have the room within those statutory constraints to develop policies tailored specifically to their own needs. It was also noticeable that departments are much less likely to see SSC as "interfering" in personnel policies and EEO than in the negotiation of conditions of employment. The Act requires SSC to promote and develop personnel policies and to promote, develop and monitor EEO policies. But there ~~was~~ very little concern expressed about SSC constraining managerial discretion through its activities in these areas. ~~This is~~ of particular interest with regard to EEO, where SSC's EEO section works to meet SSC's statutory obligations in this area. It seems likely that this lack of concern by departments reflects not so much inactivity on the part of SSC but the much lower priority now given to EEO by departments. Very few of those interviewed made more than a passing reference at all to EEO. This is despite the fact that all departments develop annual EEO Management Plans and provide two reports, one statistical and the other qualitative, assessing progress towards achieving the objectives set in the EEO Management Plan. Most departments include EEO objectives in the performance agreements of all managers and SSC stresses their importance to the performance review of chief executives. Nonetheless, although a small number of managers did give it priority, overall it does not appear to be a central management concern in these government departments. A number of studies have concluded that the EEO impetus has discernibly lessened in recent years. The lack of attention given to the issue by those interviewed as part of this study offers some support for that.

### *The relationship between corporate offices and line managers in departments*

In all departments, responsibility for the main HR functions has been devolved to line managers. There is some variation among the departments, and in the case of the Department of Social Welfare (DSW) among business units. The particular arrangements for each department are explored in the individual case studies.

Authority to make appointments has been devolved to regional or branch managers (in one of the DSW business units some entry level appointments are made by team leaders) or are rubber stamped at corporate office; responsibility for implementing performance management systems has been assigned to line managers, and where the system includes performance-based pay, they make recommendations for pay increases; decisions about promotions have been devolved either to regional or branch managers (in the Public Trust Office, PT), the final decisions of line managers are made in consultation with senior corporate management; training responsibility tends to be shared between regional and corporate offices; and decisions about dismissals and other forms of discipline tend to be the most centralised of the HR functions.

Corporate HR tend to see their role as, on the one hand a policy one, but drawing on line management expertise in policy formulation, and in the operational area, advisory and supportive. In the Inland Revenue Department (IRD), where line managers are not yet fully comfortable with their new role, corporate HR finds itself drawn into operational matters more often than it would like. In DSW, the relationship operates at two levels -- the relationship between the departmental corporate office and the business units, and within business units the relationship between their national office and line managers. In PT, there is a particular concern about ensuring standardisation of practice and equity across the department's four regions, which gives the corporate office a rather higher profile than in the other two departments. In all departments, the negotiation of employment conditions is done centrally, but with line management involvement in IRD and DSW but not PT. SSC believes that as devolution proceeds further within departments, the role of the corporate office will become similar to that of SSC with regard to responsibility for asserting the collective interest of the department. It would seem in fact that corporate offices are already playing this role to some degree.

The degree of devolution raises in all departments issues about the HR competence of line managers. In practice, the competence of line managers varies so much that it is difficult to make general statements about it. In PT and IRD, line managers tend to come from a highly technical background and do not necessarily have HR skills. In DSW, where staff are more likely to have had experience in dealing with the public, line managers may have acquired some general people management expertise, although this is by no means the same as specific HR skills. Thus HR training for line managers becomes a crucial issue. All departments acknowledged the importance of this issue, but it would seem that in each there is considerable work still to be done. Although circumstances vary, the most common was that line managers are working hard to come to terms with their new responsibilities.

SSC has no role at all to play with regard to HR management in departments. There is no provision for any regular reporting to SSC of day to day HR management, nor any provision for complaints or appeals to SSC. SSC has no sanctions to apply where line managers or departments make mistakes. That is entirely a matter for chief executives. In SSC's experience, neither line managers nor departments have tried to push issues back up to the centre, with the exception of pay negotiations, where it believes there has been a tendency to blame SSC for outcomes which are actually within the department's control. This observation was made by one union representative also.

One of the major changes is that departments now feel the political "heat" in HR issues, especially in pay negotiations. Previously, they were shielded from this by SSC.

Devolution gives rise to another important issue for departments -- whether and, if so, to what degree departments want to ensure standard HR policies and practices throughout the department. One view might be that sufficient standardisation comes from the development at a central level of HR policies that apply across the department. These policies may permit some variation in their application, according to different regional or functional circumstances, and so particular practices may differ throughout the department. This variation may be acceptable so long as overall policy parameters are not breached.

Another view might be that there is a secular trend towards decentralised HR practices. For 75 years following the Public Service Act 1912, it ~~was~~ considered important to apply highly uniform HR policies and practices throughout all government departments. Since then, it has been accepted that departments will differ from each other in their HR policies and practices. In this view, it is then but a short step to argue that considerable differences within departments in HR practice can be tolerated, followed by a gradual shift towards different HR policies within one department. Of the departments in this study, DSW comes closest to this. Clearly, adoption of a business unit structure will make this development more likely. A business unit model grows out of a recognition of difference and of the need for separate paths of development to accommodate difference. Different HR policies and practices seem to flow logically out of that.

The difficulty in the public sector is that chief executive accountabilities differ from those in the private sector. A chief executive of a private sector multi-divisional company is accountable for bottom line outcomes. So long as these are satisfactory, the range of HR policies and practices within the company may not be of vital importance. In the public sector, at least in New Zealand, the good employer obligation in the State Sector Act means that public sector chief executives are directly accountable for HR policies and practices. This does not necessarily rule out wide variation within the department, but the DSW experience suggests that the greater the variation then the greater the monitoring difficulties for corporate HR and the greater the likelihood that there may develop policies and practices incompatible with the good employer obligation. Thus, DSW's chief executive moved to reassert a corporate role in HR despite the business unit model, because in her judgement, unacceptable HR practices had developed for which she was accountable.

### *The integration of HRM with corporate strategy*

All three departments acknowledge the importance of the integration of HRM with corporate strategy but equally, all concede that they have not yet achieved this completely. This is not due to a lack of emphasis on the HR function. The size and composition of HR staff has changed in all three departments. The number of HR staff has risen in all three, although much less so in PT as one would expect given its small size. All three have employed HR professionals in corporate HR, contrasting with the lack of HR experience among the line managers who are responsible for implementing the policies devised by the HR professionals. HR appears to carry sufficient status and influence within the departments. The HR manager reports to the chief executive in PT, to the deputy chief executive in IRD and the General Manager for Corporate Services in DSW. In DSW's business units, the HR manager reports to the General Manager.

In each department, corporate HR sees its role as serving the wider strategic objectives of the organisation. None of the departments has a separate HRM plan. Instead, HR objectives are included

in the department's corporate or business plan. In each department there is a top down/bottom up planning process which is intended to ensure that the work of every member of the department contributes to the achievement of the outputs which the department has contracted to deliver to the Government. The logic is that there is a seamless chain of contractual arrangements down from the contract between the Minister and the chief executive through senior management to line managers and staff. Although in such a complex process, there is clearly great scope for sub-optimal performance in one or more areas, it is clearly the case that the contractual principles behind the State Sector Act have been firmly taken on board by the three departments. In each, senior management is aware that it must deliver what the Government has contracted to purchase and that no other activities are funded. Thus, each has a performance management system designed to ensure that the performance targets of each employee are aimed at contributing to those outputs. This makes the development of an effective performance management system by HR staff and its implementation by line managers of vital importance.

### ***HRM reform strategies***

In all three departments, there has been considerable organisational change which has inevitably impacted on HR. IRD has moved to a programme structure, PT has developed a regional structure and DSW has established a business unit structure. All departments have flattened their organisational structure. In all cases, one intention behind restructuring was to shift decisionmaking to appropriate levels or location. This included HR decisionmaking.

In all three departments, bargaining over employment conditions has changed substantially. In 1988, prior to the State Sector Act, all three operated under a highly centralised and highly regulated system. The State Sector Act abolished all of this. In all cases, departments moved to a single departmental collective agreement covering most of the department's employees. The negotiation of departmental agreements reflected the new role of the chief executive as employer and the move away from the unified public service. With departments seen now as separate organisations, and with new patterns of accountability both for chief executives and other senior managers, it was logical to shift to single agreements that could be tailored to the specific circumstances of each department. However, all senior and some middle managers were placed on individual contracts of employment. It was believed that individual employment contracts allowed the development of conditions of employment best suited to the needs of each particular employment relationship as well as making managers more accountable. In fact, almost all these contracts contained identical provisions and had no fixed term. The only exceptions were the employment contracts for chief executives (negotiated with SSC) and the senior executive service (negotiated with chief executives in consultation with SSC). The key reason for the growth of individual employment contracts in this period was to clarify the managerial role of senior staff and ensure there was no division of loyalties on their part.

It was thought possible that the Employment Contracts Act 1991 would lead to a pronounced fragmentation of the bargaining structure in the public sector, with management seeking to break the single departmental agreement into a series of collective contracts, perhaps supported by a major extension of individual contracts. There has been some fragmentation, but not to the degree suggested. The bargaining structure is most fragmented in IRD, although this is not entirely of the department's choosing. It reflects the ability of individuals to choose which particular contractual arrangements they prefer. But it also reflects the development in IRD of a group of employees that has broken away from the PSA and formed their own staff association. IRD has supported this development and negotiated a separate collective contract with the association, although it is identical with the union contract. But to the extent that IRD recognises and supports the rival union, including



financial support, it can be said that this is deliberate policy on its part. The policy has the potential to weaken the union in IRD.

In PT and DSW, there is as yet no significant non-union collective (or rival union). PT has negotiated two collective contracts, one for the bulk of its staff and the other for branch managers, with managers above that level on individual contracts. DSW has managers on individual contracts and non-managerial staff (except some stand-outs who opt for individual contracts) under a departmental collective contract. In 1994, DSW achieved separate collective contracts for each of its business units. The employees had successfully resisted this in the past and DSW had only been able to secure business unit "add-ons" to the departmental contract which offered the opportunity to include conditions specific to the circumstances of each business unit. It does not appear that any department has given serious consideration to further substantial decentralisation of its bargaining structure. There ~~was~~ no enthusiasm voiced for site-based collective contracts,

All three departments are highly unionised, with PT having the least union activity and DSW the most. The PSA has had trouble adapting to the new environment, but its membership and collective coverage remain high so far. The managerialist thrust and the reassertion of managerial prerogative have affected union/management relations in the public sector. In the three departments in this study, there ~~was~~ some evidence of a deterioration in the relationship with the union. IRD's support for the break-away collective is one case in point. In some of DSW's business units, there has been a very determined effort to reassert managerial prerogative and this has been at some expense to the relationship with the union. But overall, the union representatives interviewed in this study believed that union/management relations were generally good. Particular emphasis ~~was~~ placed on the development of a problem-solving approach in IRD and DSW which replaced the traditional conflict-ridden adversarial style and allowed joint working ~~towards~~ constructive solutions to problems. It ~~was~~ noticeable, however, that this ~~was~~ much more frequently identified as a positive development by union representatives than by managers. On the other hand, union representatives were not naive about their relations with management. They were sceptical about some management approaches, particularly management claims that they were consulting workers, arguing that the consultation was very limited. However, all three departments face major problems of staff morale. These are worse in IRD and DSW than in PT. Management needs to construct a positive relationship with their employees and are unlikely to further this ~~aim~~ with a straight-out attack on their union. Equally, the PSA faces major problems of relevance in the workplace. It is probable that the main threat to the role of the PSA comes ~~less~~ from a direct management assault than from an erosion of its standing with its members through its inability to deliver improved working conditions.

The three departments have also taken some initiatives in other HR areas. All ~~three~~ have moved to flatten the grading structure and to reclassify occupations to break down demarcations between occupations. New technology has compelled retraining in each department, although its extent varies considerably. Remuneration systems have changed in each department. Pay scales have been replaced by ranges of pay rates. Employees are placed within the range on the basis of their performance appraisal. Ranges of rates were introduced soon after the State Sector Act was passed in 1988 and were presented as a move towards performance-based pay. Six years on, there is a fairly jaundiced view of their role. The computer payroll systems required the informal insertion of pay levels which became de facto steps; the possibility of regression ~~was~~ ruled out by a clause in the collective agreement prohibiting it; although many positions seemed to offer a long salary range to the holder, in practice many were unable to progress beyond a certain point; and, despite the ostensible link with performance appraisal, the system soon seemed to generate annual progression just ~~at~~ its predecessor had done. The discrediting of the ranges of rates system ~~has~~ given some urgency to the development of new remuneration systems and new systems of performance management. Each

department has placed considerable emphasis upon their performance management systems. As noted earlier, there is a major effort made to ensure coherence among individual, branch or regional and corporate objectives through a top down/bottom up planning process. There is lively debate about the degree to which they succeed in this aim. The performance management system is the responsibility of line managers in each department as are decisions about remuneration based on that.

### *The impacts of HRM reforms*

There has not yet been a formal evaluation of HR reforms or of the performance of the HR function in any of the three departments. In part this might be due to the fact that a major review of the whole programme of public sector reform was carried out in 1991.

There were no criteria laid down centrally and in advance by which the success of the new HR regime could be assessed. What evaluation there has been has occurred as part of the normal management process. In all departments, the achievement of HR objectives by managers is assessed as part of their performance appraisal. In IRD, HR is also evaluated by the quarterly reporting of achievements against objectives. Of course, informal evaluation occurs continuously. There was no support from either union or management representatives for a return to the pre-1988 system. All believed that decentralisation had been vital to the achievement of a range of HR reforms. In a general sense, these referred to the new-found capacity of departments to own their HR policies and practices and thus to develop those appropriate to their own circumstances. Differences of opinion among those interviewed were mostly about the appropriate degree of devolution within departments and the ability of line managers to carry out their new responsibilities. There were considerable reservations about the extent to which departments had provided sufficient training for line managers in this radically new role for them.

This was the major reservation raised by union representatives. They observed that it was the employees who dealt with the negative consequences of line management incompetence. This, combined with continual organisational restructuring, job insecurity and a virtual pay freeze, had had predictable effects on staff morale and attitudes towards management. Most managers interviewed conceded this argument. The key issue seems to be the combination of line management incompetence (where it occurs) with the degree of discretion and flexibility they enjoy under the new HR regime. Incompetence operating without prescription is a potent brew and understandably it makes employees apprehensive. In some cases, they literally do not know what will happen in particular circumstances. Senior management is aware of this as an issue and believes that the broad policies they have established should deal with this problem. But in a devolved system, this will only work if there is effective monitoring of day to day HR practices and it is evident that this is not always achieved, especially in large departments. It is noticeable that this appears to be less of an issue in the Public Trust, by far the smallest of the three departments. Size and complexity were of course principal original reasons for bureaucratisation--that is, the laying down of universal and prescriptive rules and the limiting of discretion.

### *Concluding remarks*

The major issues for the future will revolve around the appropriate degree of devolution. This will operate at two levels--the relationship between SSC and departments and relations within departments between line managers and corporate offices. Tension between SSC and departments seems to be more in practice than in principle. Departments concede that SSC is the agent of

Government policy and that it is entirely appropriate for the Government to convey its policy parameters to departments. In practice, departments are inclined to see SSC as playing an interfering role, and as going beyond the legitimate degrees of intervention or control. It raises the question of what the appropriate role is for a central HR agency in a decentralised regime. The nature of public sector accountabilities means that SSC is likely to retain its role as the agent of Government policy, but it is an open question as to whether this requires it to enforce the Government's pay policy as strongly as it has done. The new arrangements for the 1994 negotiations suggest that SSC is gradually moving to a less directive approach.

SSC is likely also to retain its role of acting in the wider collective interest of the Government and to continue to review the performance of chief executives (as well as hiring and firing them). The latter function gives SSC the lever it needs to enforce the good employer obligation and to acquire the information it requires to carry out its personnel and EEO responsibilities. Although there is considerable debate as to how effectively SSC carries out these responsibilities, without that lever, its capacity to do so would be severely constrained. The relationship between SSC and departments is likely to consolidate over time. Following the passage of the State Sector Act, SSC/departmental tension stemmed from the contradiction between the decentralising philosophy of the Act and SSC's retention of the responsibility for negotiating employment conditions. Similarly, current tension stems from conflict between the ostensible delegation of that negotiating authority to departments in 1992 and the role of SSC in continuing to ensure that Government policy limits are adhered to. The best route for resolving those differences over time is likely to be through the gradual emergence of practical accommodations and understandings. Certainly, no obvious formula that can be prescribed in advance appeals at this stage. This relationship unfolds over time. The participants learn over time what they can and cannot do and how to reconcile their different positions and responsibilities. The DSW chief executive observed that it is the responsibility of departments to construct a relationship with SSC that allows them to own their HR policies without compromising the legitimate responsibilities SSC has to Government. As noted above, the 1994 arrangements were much less directive and this may offer the model for the future relationship between SSC and departments.

It is clear that there will continue to be a lively debate about the relationship between corporate offices and line managers and the appropriate degree of decentralisation within departments. It is probable that the balance of opinion will swing back and forth at different times. It is also clear that the active centre of that debate has shifted substantially since 1988. Despite the magnitude of changes since then, there is no constituency for a return to the pre-1988 system. But there is still a debate about how far devolution should go and how it should be managed. The DSW experience hints at the limits of devolution, particularly given the nature of public sector accountabilities. The key issue under devolution is the competence of line managers who exercise effective HR responsibility. The question of effective support for line managers, including appropriate levels of training, will be of central importance in the near future, especially if the current low levels of employee morale are to be addressed.

Meanwhile, despite the scope of the revolution, some things do not change. The traditional public sector ethos continues to exert its influence over HR policies and practices. Most chief executives of government departments are career public servants and see themselves as purveyors of the public purse. This constrains what they are prepared to do. They also remain aware that their employment policies may become subject to closer public scrutiny than would likely be applied to a private sector firm and that they must not needlessly expose their Minister to political risk by unacceptable or controversial practices. The notion of the collective interest of Government also constrains chief executives. There may be things that a department would like to do but they have to have regard to the Government's wider interests. The Government is the only shareholder of all

departments and has a legitimate interest in seeing that none of them **acts** to the detriment of the others. But if the Government exercises this right too much, it breaks down individual chief executive responsibility.

It is certainly true that the experience of the employment relationship in the public sector is now quite different from less than a decade ago. It is now much less rule-governed and much more subject to discretion and flexibility. For managers and employees alike, the move away from prescription presents opportunities and pitfalls. So far, it is evident that managers assess the changes more positively **than** do employees. This is understandable given the managerialist thrust of recent reforms and the disturbances experienced by employees, seemingly without relief since the late 1980s. The future assessment of their employment experience by employees, **and** associated with that the efficiency, productivity and integrity **of** the public sector, will depend to a significant degree on the operation of the new decentralised regime of human resource management.

## **The Department of Social Welfare (DSW)**

### *Introduction*

The Department of Social Welfare provides welfare services to people who require income support and social assistance and to children and young persons. It is organised into four stand alone business units. The largest is Income Support Services which absorbs 63 per cent of the department's operating budget and employs **4 653** of its 7 503 staff. It is responsible for the assessment and payment of income support under various benefit categories -- work-related, caring, incapacity, war pensions, non-beneficiaries and supplementary benefits. It is also responsible for reducing benefit abuse. The Children and Young Persons Service takes 32 per cent of the operating budget and employs 1900 staff. Its responsibilities fall into three categories -- care and protection (child abuse and neglect), youth justice (actions relating to youth offenders that avoid formal proceedings) and adoption (counselling of and assistance for birth and adoptive parents, and for adopted adults and birth parents considering making contact). The other two business units are much smaller with each accounting for only 2 per cent of departmental expenditure. The Community Funding Agency (137 employees) allocates and delivers funding to community-based social services in three areas-- families under stress (woman's refuge services, child and family support services, counselling and preventive programmes), community welfare (general advice and assistance, budgeting programmes, sexual abuse/rape crisis services and community housing) and people with disabilities (residential **services**, vocational programmes, disability advice and information services, community housing and attendant care). The Social Policy Agency (**104** employees) provides policy advice on the areas within under the jurisdiction of the four business units. The remaining 1 per cent of departmental expenditure is accounted for by the Corporate Office and TRITEC, an information technology unit. The Corporate Office (371 employees) provides the chief executive with financial, internal audit, resource management, legal, business and communications services. The corporate office is also responsible for direct servicing of the Minister of Social Welfare (correspondence, parliamentary questions, etc.). The information needs of the business units and the corporate office are serviced by **TRITEC** (338 staff).

The decade since the mid-1980s **has been** a period of continuous restructuring for **DSW**, as for most government departments in New Zealand. The business unit structure was introduced in May 1992 following a comprehensive review of the department. The review concluded that significant efficiency gains could be made by establishing separate units with a very high degree of autonomy from each other. But the introduction of the business unit structure itself followed a period of

frequent restructuring. Prior to 1992 DSW had a matrix structure. At the third level of management, below the chief executive (director-general) and deputy chief executive, were a range of assistant director-generals with responsibility for programmes and services, policy development, resource management, information systems, audit and security and special duties. At the same level were the four managers of the operations area offices, which had been reduced in number from six to four following a review of the departmental regional structure in 1990-1991. The operations area offices constituted the department's regional structure and dealt with the whole range of departmental responsibilities in each area. At about the same time, DSW comprehensively restructured its district offices, reducing their number from 45 to 27, and flattening its district office organisational structure from six to four levels. In this exercise, 600 positions were disestablished. The total number of staff employed in DSW in 1993 (7 503) has not fallen greatly since the passage of the State Sector Act in 1988 when 7 298 were employed. Staff numbers did reach a peak of 8 175 in 1990 and fell to 7 104 in 1992 before rising to their present level.

The establishment of the business unit structure has been the largest restructuring exercise in 1992, but many other examples could be used to illustrate the continuous process of change. Major changes have come about as a result of the good employer obligation in the State Sector Act which obliges the chief executive to implement an EEO programme. DSW established an EEO Unit in its Head Office to oversee the development and implementation of its EEO Management Plan. It took a wide range of EEO initiatives in furtherance of the plan. For example, DSW adopted or supported management training programmes for women, Maori and Pacific Islanders, it gave the right for all members of EEO target groups to attend a 2 hour networking meeting each month, it developed an EEO awareness training course for managers and required district managers to allocate a portion of their budget to EEO promotion, and established a prescription for the accountability of managers for EEO. In 1991, DSW dismantled its specialist EEO structures and made EEO a mainstream management responsibility, although it did retain a specialist EEO adviser to oversee the area.

Even prior to the State Sector Act, DSW had begun to address the issue of its own monoculturalism. Although a high proportion of its client base came from Maori and other Polynesians, DSW projected a firmly monocultural image in terms of its operational style, values and staffing mix. During the 1980s, DSW moved to overcome this. The adoption of "*Puho-to-Atu-tu*" (Report of the Ministerial Advisory Committee on a Maori perspective for the Department of Social Welfare) in 1986 laid the basis for attempts to redress DSW's monoculturalism. The department established closer relations with Maori and other ethnic groups and negotiated contracts with local *iwi* (tribal authorities) for service delivery. DSW also made the first tentative steps towards the introduction of District Executive Committees.

Other major organisational changes have involved the introduction of two major information system development projects – SWIFTT (Social Welfare Information for Tomorrow Today) and CYPFIS (Children, Young Persons and their Families information system). These were recommended by a Strategic Information Systems report in 1987. They were gradually introduced over the next four years and greatly enhanced departmental efficiency. As with all departments, DSW had to restructure its financial management systems to meet the demands of the Public Finance Act. In 1990, DSW moved to accrual accounting. This required the development of a stand alone full accounting system to replace the cash accounting system in which Treasury paid all departmental accounts and provided expenditure reports for the department.

In addition, the department has made very substantial changes in human resource management areas (apart from EEO), and many of these will be considered below.

### *The relationship between the Department of Social Welfare and the State Services Commission*

The relationship between the department and SSC operates almost wholly at the level of DSW's corporate office. The business units have very little to do with SSC. The relationship is the same as for other government departments. From 1988, the chief executive of DSW became the employer of all DSW staff and exercised all the responsibilities of an employer, with the exception that the SSC negotiated employment conditions for DSW staff. Since 1992 that authority has been delegated to the DSW chief executive but, in terms of the Act, it must be exercised in consultation with SSC whose task is to confine departments within the constraints of government policy. In the 1992-93 negotiations, SSC took a prescriptive approach towards ensuring that the Government's policy parameters were observed. DSW was seen as an "at risk" department -- it was large, its settlement had major fiscal implications and could have flow-on implications for other departments and its staff had in the past demonstrated a willingness to take industrial action. SSC was represented at the negotiations, it closely monitored all developments and significant changes in the department's bargaining position had to be approved by SSC. As discussed in the overview section, SSC's approach changed considerably in the 1994 negotiations. The terms of the delegation of bargaining authority to chief executives were not as specific as in 1992 and much less prescriptive. SSC had little involvement in the bargaining process and was not represented at the negotiating table. There was however debate between DSW and SSC officials over the department's proposed strategy and items that might be included in the negotiating package prior to its submission to the Government for final approval.

The DSW chief executive believes that within the parameters laid down by Government, departments have been given fair scope to devise their own solutions. It is their responsibility to construct a relationship with SSC which, while satisfying the legitimate policy concerns of the Government, allows departments to keep as much control as possible over their employment conditions.

### *The relationship between the corporate office and line managers*

In DSW, this issue must be approached at two levels -- the relationship between the business units and the departmental corporate office and the relationship within business units between their own national offices and line managers.

### *The relationship between the departmental corporate office and business units*

The issue that dwarfs all others in the management of DSW is the degree to which authority should be devolved to business units. This applies as much if not more to HR as to other areas of management. The business units were set up in May 1992 with a radical programme of devolution. The chief executive of the time designed the units to be able to stand alone as separate organisations. For this reason, the duplication of corporate office functions was given a higher priority than economies of scale. This position was strongly supported by the senior managers who had been hired with an explicit brief to implement a radical devolution programme. The business units operated as autonomous agencies (some of them got rid of all DSW signage and presented themselves to the public as independent stand-alone organisations).

Illness forced the retirement of this chief executive in 1993. His successor disagreed with the extent of devolution within DSW. In her view, the accountability of the chief executive of the

department to the Minister was incompatible with the degree of authority being exercised within business units and the manner in which it was being exercised. She believed that improvements could be made in the management of staff in accordance with the statutory obligation in the State Sector Act to treat employees fairly. In her assessment, a major problem was the lack of training for line managers in the HR field. Without training, a line manager has no idea how complex the disciplining area is and what procedural and substantive standards apply. One indicator of the poor quality of many line management practices was the remarkable growth in personal grievance claims filed against the department. The business units have gradually have come to accept that there were problems with the implementation of HR policies and considerable progress has been made in remedying them.

The chief executive argued that a devolved model without central controls was unacceptable and moved to reassert a more active role for the corporate office. She established a Management Board which comprises each of the four business unit general managers and the three general managers of Finance, Corporate Services and TRITEC. All major decisions about the operation of the department go through the Board. Her general managers in Finance and Corporate Services have established a monthly meeting of their business unit counterparts to ensure an exchange of information and views and to facilitate co-ordination.

DSW's chief executive is not a centralist. She sees the appropriate business unit/corporate office relationship as one in which business units have responsibility for their own HR policies. The role of the corporate office should be to set guidelines and to allow business units the flexibility to operate according to their own needs within those guidelines. The HR responsibilities in each DSW business unit cover the entire spectrum of HR activities. There are, however, some departmental constraints, especially in industrial relations. Until 1994, the department had a single collective contract covering all business units. The negotiations were carried out centrally under the co-ordination of corporate office but with the involvement of the business units' HR and line managers. The corporate office and the business units were in agreement on the need for further decentralisation in the shape of separate collective contracts for each business unit. The department's desire for separate contracts was resisted by the union in 1993 but the collective contract included business unit "add-ons", supplementary to the main contract which were specific to the concerns of the business units. In 1994, however, the union agreed to split up the departmental contract into six collective contracts -- one for each of the business units and the support groups.

The business units have complete discretion in hiring, with one exception. The traditional practice in the public sector has been that the final decision on an appointment could not be made by a person on the interview panel. The previous chief executive, however, believed that the direct supervisor should be both on the panel and make the final decision. The one exception is that where a position reports directly to the business unit general manager, the general manager should clear the appointment with the chief executive prior to a decision being made.

Dismissals have been a contested area. When the business units were established in May 1992 this authority was exercised by business unit general managers. The new chief executive retrieved responsibility for dismissals and redundancies for a period but has since agreed that this authority should be restored to general managers. However, she does require that she be briefed on any proposal to dismiss, in sufficient time to allow her to make any comment she thinks necessary. The business units have considerable autonomy over their performance management systems but they are required to tie its operation into the collective departmental interest. The same applies to EEO, where the business unit EEO plans must be compatible with the overall DSW EEO Plan. Each unit controls its own job

evaluation programme. Business units are required to use the department's legal services when a personal grievance or a dispute reaches the Employment Tribunal or Court.

### *Relationship within business units between line managers and business unit corporate offices*

In the Community Funding Agency (CFA), day to day responsibility for HRM is devolved to Area Managers. Hiring and firing are centrally administered but Area Managers make recommendations to the general manager. Pay negotiations were done centrally but some Area Managers sat in on the negotiations. The performance management system was developed by the business unit HR manager and one Area Manager but its operation is a line management responsibility. In CFA, corporate HR provides a support service to line managers ~~most~~ the range of HR policy areas. This support takes the form of advice, guidelines and documentation (especially for EEO and disciplinary matters). CFA spends 10 per cent of its budget on training and HR training receives its share of that. Training responsibilities are shared between national and regional offices. Line managers by and large are not looking for new responsibilities at present; instead, they are still coming to terms with those they already have.

In Income Support Services (ISS), there is a HR consultant for each region in national office whose role is to offer the district managers in that region advice on any HR issue. But that advice is not prescriptive. District managers appoint all staff up to the level below them but effective authority for entry level positions is delegated to team leaders. Most team leaders have between two and four years experience. ISS has shifted heavily towards team-working with the intention of devolving considerable authority down to team leaders. District managers, who are themselves appointed by regional managers, have day to day responsibility for all aspects of HR management except dismissals. They are assisted in this by a line manager who has HR as a formal part of their responsibilities, although all line managers are expected to carry out day to day HR responsibilities. Dismissals are still the responsibility of the General Manager. Some regional managers in ISS would like to see authority for dismissals devolved to district managers. So far, ISS has tended not to have national HR policies, meaning that policies vary across districts. However, it is in the process of developing a national recruitment policy.

The Children and Young Persons' Service (CYPS) began by contracting its HR policy responsibilities to the departmental corporate HR manager. After a year, it shifted to employing its own staff for HR policy. As with the other business units, line managers retain operational responsibility for HR with the exception of dismissals and redundancies. Prior to July 1994, regional managers were responsible for HR in CYPS, except in the Northern region where branch managers had formal responsibility. In all regions, branch managers exercised day to day responsibility with regional managers in a monitoring or oversight role. Since July 1994, CYPS has done away with its regional structure and its 15 area managers report directly to the general manager.

### *How is the flexibility in HRM used?*

DSW uses the available flexibility in its relationship with SSC to the limit. In terms of internal management within DSW, the chief executive believed that the department generally needed to make sure that appropriate minimum standards were in place and only then to aspire to being more innovative. She has worked to ensure this has been achieved.



The key question in DSW's use of the flexibility available to it in the management of human resources has already been discussed above. To what degree are business unit managers autonomous of the corporate office and what degree of independence is afforded to line managers within business units? It appears that DSW and its business units have made use of available flexibility to establish a system of HR management that overall is more devolved than most (if not all) other government departments. In appointments, dismissals and discipline, performance management and the negotiation of employment conditions, HR management in DSW is much more devolved than in most government departments.

The specific HR policies of the business units may vary considerably. For example, CFA has changed its recruitment policies so as to develop a staff profile that better reflects and is more suitable for its client base. CFA also encourages its staff to work from home and 25 per cent of staff do so, up from zero two years ago. Most of these are outreach workers who write and negotiate contracts for the delivery of services by private providers. Working from home depends on and further encourages a high trust environment.

All business units have established more flexible working hours and days for their staff, although these vary from unit to unit. ISS has achieved the right to open its offices on Saturdays if needed. The collective contracts for CFA and TRITEC both provide for employees to work, on agreement, any 5 days of the week and any weekly set of 37.55 hours from midnight to midnight.

ISS places an enormous emphasis on the quality and timeliness of service delivery. Each morning, the "9 o'clock news" is faxed out from corporate office to each district office setting out explicitly how each office has fared in the quality and timeliness of service delivery. The greater autonomy for business units has allowed CYPS to develop work in competencies and skills development that is unique to them. For example all social workers are to have a professional qualification by the year 2000; recruitment policies reflect that and competencies are being developed within CYPS commensurate with that. Previously, before the business units were set up in May 1992, the service would have had to compete with other parts of DSW for the resources to undertake this project. Now, once the senior management in the service decide that they want to do it, they are able to do so.

### *Strategic integration of HRM with the goals and objectives of the organisation*

DSW makes a strong effort to integrate HR policies and practices with overall corporate objectives. Some business unit managers believe that a high degree of integration has been achieved while some senior corporate managers are more sceptical.

Corporate HR is a small unit that supports the chief executive and offers support services to general managers that want it. Each business unit has its own HR function and operates it differently. Corporate HR used to report to the chief executive but now reports to the General Manager, Corporate Services, as do all functional corporate managers. The HR managers in the business units report directly to their general manager.

DSW has a mission statement, a corporate plan and a business plan but no separate HRM plan. Instead, HR strategies are built into the corporate and business plans. For example, the 1994 corporate plan lists as HR objectives for ISS, the introduction of a new grading and pay structure for front line staff to support performance-based pay, the development of leader-manager training programmes for all supervisors and the development of a HR Information System. In CYPS, the HR objectives are set as "a stable well-trained and professional workforce". This is said to require the achievement of 90 per cent of Competency Programme Branch Targets, the filling of 90 per cent of

social work vacancies by social work graduates, the development of core attribute selection criteria across the Service and the development of a programme to target the recruitment of Maori and Pacific Islands staff.

These plans contain service level standards and indicators of responsiveness. Different units and sub-units negotiate service agreements with their internal clients. DSW has established comprehensive performance targets for every output and sub-output that the Government has contracted for in its purchase agreement. Coherence is pursued by an integrated top down/bottom up approach which divide outputs into sub-outputs with performance standards (quality/quantity/cost) set for each.

These performance targets are set **through** performance agreements. These move down from the Minister's contract with the chief executive, the chief executive's contract with business unit general managers and their performance agreements with their regional managers (in those units that have regional managers). The regional managers make agreements with their line managers who in turn make them with their staff. These all derive from what outputs DSW and the business units have contracted to deliver. This is designed to ensure coherence between corporate, operational and individual target setting. In principle, it should do so, but there are many possibilities for sub-optimal performance in such a long chain of contractual arrangements. The emphasis on service level standards in agreements with both **internal** and external clients reflects the stress on turning the department into a client-oriented organisation. The management of people through their performance agreements is tied closely to that overall driving corporate objective.

Major HRM reforms in DSW (including all business units) have involved senior management. They also involved the union, particularly when changes came under the consultation provisions of the collective contract. CFA has established a HR Framework Project in which it develops a set of HR policies for the business unit. This is being developed by consultants who are using focus groups from the staff in an attempt to ensure a sense of ownership of the final product and therefore its acceptability. In ISS, national office HR, with input from line managers, develops an "action point", a policy priority to be the focus of HR activity in each financial year.

### ***Reform strategies***

In 1988 following the enactment of the State Sector Act, DSW, like all departments faced the daunting task of shifting overnight from a human resource management system controlled by a central agency to one where each department ~~was~~ required to take responsibility for its own HR policies and practice. DSW's initial approach was to convert SSC policies and practices into department policies and practices. These developed and changed over time but continued to bear the legacy of their origins. The establishment of business units in May 1992 was the opportunity for a reassessment. Since then, there has been an emphasis on minimising procedural rules and on giving managers guidelines within which they exercise discretion. This gives managers the flexibility they need to manage but also carries the danger, especially in a large organisation, of staff feeling they are not being treated fairly or equally. This is a particular problem when a manager rewards one or more staff members and not others. It is the largest government department **and has** a staff which has shown historically that they are willing to take industrial action. Management at all levels need to be sensitive to that.

*Changes in organisational structure.* Since 1988, the major change has been the restructuring into business units. A matrix structure ~~was~~ replaced by functional units and DSW has continued to

refine those units since then. DSW had been heavily centralised; decentralisation established four business units with two central support groups under that -- Tritec (information technology) and Corporate. Organisational hierarchies have been considerably flattened. In CFA, for example, 17 levels have been reduced to 5 (including the DSW chief executive). NZ ISS and most recently CYPs removed their regional administration offices. The NZISS regional managers operate out of a car with a cellphone and spend most of their time travelling around the district offices. Their focus is on front line responsibility.

*Classification and grading.* Until 1994, DSW retained the long-standing public service occupational classification system it inherited from pre-State Sector Act days. The collective contract made provision for 23 occupational classes and these could only be changed by negotiation. In 1994, DSW and the PSA agreed to replace these 23 classes with one scale for each business unit, to be included in each business unit collective contract. These were to incorporate pay for performance. In compensation for this move, staff received a one-off payment of \$500.

*Pay systems.* After 1988, DSW abolished traditional public sector salary scales and introduced salary ranges (usually called ranges of rates) in which staff were placed somewhere in a range; further progression was dependent on performance as assessed through the appraisal system. Although the introduction of ranges of rates was controversial, in practice the degree of change was limited. By and large, employees continued to progress through the range annually until they reached the top of the range. There was no provision for regression down through the range. This system changed in 1994 (see below), although there is still no provision for regression. The 1994 collective contract settlement of a \$500 payment to all staff, noted above, was financed out of a surplus generated through operational efficiencies. The department secured the Government's agreement to use the surplus for that purpose.

*Size and composition of staff.* Staff numbers have remained virtually the same (about 7500), but new forms of work organisation and new technology means they have become more productive. New technology was originally intended to save about 600 positions, but the department has taken on new functions, which kept staff levels largely steady. There was substantial staff redeployment, about 130 redundancies and a very limited amount of retraining. A freeze was imposed on all appointments. DSW now deals with more clients on the same resource base. Funding has decreased although it is hard to compare because of the move from cash to accrual funding. The composition of DSW staff has changed. As with all government departments, DSW has employed an increased number of finance, specialist communication staff and marketing staff. The department found it needed to be more professional in marketing itself and informing the public what it does.

*Performance management.* Like all government departments, DSW moved following the State Sector Act 1988 to introduce its own performance appraisal system. These were typically not performance pay systems. A highly limited form of performance pay operated through the ranges of rates system, but this had considerable difficulties as noted above.

Since then, DSW has worked hard to establish comprehensive performance targets and, as discussed above, to incorporate these in performance agreements throughout the organisation, from the Minister's contract with the chief executive down to the performance agreements line managers negotiate with their staff. The intention is that all these performance agreements complement each other and contribute to the achievement at agreed quality standards of the outputs which the Government has contracted to purchase. The discussion above identified reservations as to the extent to which this is achieved.

All managers are on individual employment contracts and all have a performance pay component on top of a base salary, with some element of "at risk" pay. But until 1994, there was effectively no performance pay system for other staff who progressed virtually automatically through the ranges. Rather than being a basis for pay, the performance management system was aimed at achieving corporate objectives, improving staff performance and developing staff. The operation of the system was a line management responsibility throughout the department.

This changed in 1994. The business units introduced a performance-based pay system in their separate collective contracts. As noted earlier, they introduced a single range for each unit and eliminated the minimum and maximum from that range. A number of ranges for each position operate within the business unit's overall range. In at least one business unit, new staff are employed at 85 per cent of the median for their position and progress on annual assessment to 105 per cent. Most business units are funding this through 2 per cent productivity savings which the Government has agreed to return to the department. One business unit, CYPs, has incorporated these savings into its ranges but has also adopted a performance-based remuneration system, meaning that it has to make a further 2 per cent productivity savings over the term of the contract (2 years) to fund the performance component. The PSA reluctantly agreed to this system. It preferred a skills-based remuneration system. The union has also promoted the notion of team-based reward systems. In NZISS and TRITEC, where team-working has become increasingly important, there is now agreement that performance pay can be made on the basis of team rather than individual performance where each member of the team agrees. Some business units do make use of non-monetary team incentives.

HR responsibilities are included in the performance agreement of line managers. Each manager is assessed on various categories -- working as a team member, budget management, exercising personnel delegations, supporting the chief executive in meeting the statutory good employer obligation and (the all-encompassing criterion) meeting the requirements of the business plan which includes HR objectives. In addition, staff appraisal of managers tends to give HR skills a high priority. DSW concedes that training of line managers in HR as in other areas is a major issue. Prior to the business units being established, there was a defined Senior Management Programme for the whole department. Since then, line management training has been a business unit responsibility and has varied across the units.

*Bargaining structure.* Like all government departments, DSW moved from numerous public sector-wide occupational agreements to a single enterprise agreement in 1988. In addition, most managers were placed on individual employment contracts. As discussed above, until 1994 DSW retained a single departmental collective contract but with separate business unit "add-ons" to cover particular conditions in each unit. In 1994, DSW and the union agreed on separate collective contracts for each business unit. Those collective contracts were negotiated by each business unit but usually with a corporate office HR representative in attendance. The corporate HR manager monitored the negotiations closely and convened a daily meeting of all business unit HR managers during the intensive negotiating process. All managers are now on individual employment contracts. Only those senior managers who report directly to the chief executive and some specialists in particular areas are on fixed term contracts and their contents are fairly standard. There was some controversy in DSW when individual contracts were first introduced for managers in 1988, but over time it has come to be accepted. Initial apprehension that individual contracts were merely a vehicle to erode conditions or make managers more vulnerable have been overcome. There is now a high degree of acceptance of individual contracts for managers throughout the New Zealand public sector, although some departments retain separate collective contracts for middle managers.

*Relationship with union.* DSW is highly unionised, and as noted above, has a staff which has shown it is willing to take industrial action. This tends to rule out any **strongly** anti-union practices by the department. There has been a decisive reassertion of managerial prerogative, more so in some business units than in others, but without, to date at least, any significant undermining of the role of the union. The **PSA** has found it difficult to respond to the new environment but has taken some key initiatives, such as the shift from an adversarial to a problem-solving approach. This means that **DSW** and the union are getting real solutions that address problems and have potential to be long-lasting. It is a very time-consuming process and commitment to it requires an act of faith in a period of uncertainty and anxiety on both sides.

### *The impacts of reforms*

There has been no formal evaluation of the **HR** function nor of the **HR** reforms introduced in the department. Some assessment is done through line managers' performance agreements. Some managers in business units are positive about staff morale and believe that employees are enthusiastic about the structural reorganisation of the department and the new policies and practices established since then. Others, especially in the corporate office, were initially less positive as a result of what they saw as poor **HR** practices in some business units. However, it is believed that these difficulties have been overcome since the appointment of the present chief executive who made this issue a high priority.

These differences among **DSW** managers map onto different attitudes about the appropriate degree of devolution of **HR** and other management functions. The chief executive who oversaw the establishment of the business units had the view that almost everything should be devolved to the units. It is unlikely that he would have found a long-term place for a significant corporate **HR** function. Some of the managers he appointed shared this view. The new chief executive is firmly in favour of devolution but with a strong corporate co-ordinating and support role to protect her statutory obligation to be a good employer.

For **DSW** employees, the important **HR** issues have been job security, fair and equitable conditions, the lack of an increase in basic pay rates for several years, safe working conditions (physical safety and freedom from harassment), career opportunities and management they can trust. Employees are concerned about the portability of service across business units -- how far will devolution go? The union believes that prior to the appointment of the present chief executive **DSW** had gone backwards in **EEO**. A more general concern was over the development of varying **HR** standards and practices in different regions and district/branches and a desire for consistent national standards.

The main issue for the future is the appropriate degree of devolution. On the one hand, there are those who believe that devolution must be pushed further, that any problems which have emerged arise out of having stepped back from the complete business unit autonomy model. On the other hand, others believe that devolution has brought an important set of difficult issues to the fore mainly to do with consistency in standards and equity in treatment. They believe that the role of the corporate office is to play a firmer co-ordinating role and note with approval that this has started to happen and that these problems are being overcome. In turn, this then makes it possible for the business units to again be in control of their own **HR** policies and practices, but within broad parameters that satisfy the good employer accountabilities of the chief executive. There is no support for returning to the pre-1988 model and the active issue in terms of the post-1992 (devolved) model is getting the balance right.

## The Public Trust Office

### Introduction

The Public Trust Office is one of the very few trading departments remaining in the New Zealand public service. Most trading activities have either been privatised or established as state-owned enterprises (SOEs). SOEs are constituted under the Companies Act and are obliged by their own legislation to operate as profitably as comparable private sector companies. Although they remain under public ownership, and are thereby accountable to the Minister of State-owned Enterprises, their orientation is firmly commercial and they enjoy substantial autonomy both in terms of their formal relationship with Government and in terms of the actual operating practices that have developed. The Public Trust Office is not an SOE. It is established under the Public Trust Office Act 1957 as a corporation sole which has the status of a legal entity separate and distinct from the Crown. However, the Public Trustee is appointed as chief executive of the department under the provisions of the State Sector Act and is directly accountable to the Minister in charge of the Public Trust Office for the financial, human resource and general management of the department. With regard to each individual trust, estate, agency or other matter, the legal responsibility of the Public Trustee is to the beneficiaries or others having a proper and legitimate interest in the matter. In this regard, the Public Trustee operates in the same way as any private sector trustee company.

The chief purpose of the Public Trust Office, as set out in its 1993-94 corporate plan is "to provide competitive trust services, including the making of wills, the management of estates and trusts and acting as agent under a Power or Enduring Power, of Attorney". It ensures that "irrespective of the size or value of the estate or trust, personal trust services at a reasonable cost are available to all New Zealanders". The Office acts to protect the property of deceased people and those unable to care for their own property. It tries to maintain the incidence of intestacy at its present low level and encourages people to make provision for their own future and that of their dependants. It also performs a wide range of statutory duties of a fiduciary nature for the Government.

The Public Trust Office has no central government funding. It relies completely on generating operating revenue from its business activities, which includes charging the Government a fee for the performance of some of its statutory fiduciary duties. Its business focus is on the provision of personal rather than corporate trust services. The estates of the majority of its clients are not high in value but the Office never declines business, regardless of the size of an estate or trust and irrespective of whether the revenue from the appointment meets the cost of administering it. These factors place great pressure on the Public Trust Office to operate efficiently and profitably. It achieves this -- its pre-tax profit in 1993 was \$NZ14.2 million which is a considerable increase from its \$NZ2.7 million profit in 1989.

The Office has undergone substantial organisational change in recent years. Its staff numbers have dropped steadily from 579 in 1988 to 477 in 1993, a cumulative fall of about 20 per cent. This has been achieved almost entirely through attrition. Productivity, measured in terms of revenue generated per staff member, has risen by more than 40 per cent since 1988. The departmental structure has changed with the introduction of a regional structure. Previously, the national office co-ordinated the activities of the 53 branches directly, but this is now done through the four regions. Necessarily, a measure of devolution of authority from the national office to the regions has accompanied this.

### *The relationship between Public Trust (PT) and the State Services Commission*

As a trading department, PT is in a different situation from that of most other government departments. It is entirely self sufficient in its operations and gets no ~~tax~~ money from the Government. The resources it has at its disposal reflect its level of business activity. Despite this, its relationship with SSC is no different from that of other departments. It is autonomous in HR with the exception of the negotiation of employment contracts. In employment negotiations, PT is subject to the same constraints of central Government policy as other departments.

These were ~~aimed~~ essentially at the core departments and at times were not relevant to a self-funding agency such as PT. This problem was made worse by the fact that for a few years PT found itself negotiating at the beginning of public sector wage negotiations. Despite conceding that PT was different from other departments, SSC still feared that, as in any department, a breakthrough in the PT negotiations could have implications for all other departments. Indeed, in one year, the Public Trust settlement did become the pattern for other departments. Thus, PT was forced to negotiate an extension of time to the existing collective employment contract in order to get away from the beginning of the round. The department has tried to encourage both the PSA and the SSC to see it more as a commercial state-owned enterprise than as a core government department. Nonetheless, delegation of negotiating authority is now more noticeable as PT is not seen by SSC as an "at risk" agency. Departments classified by the SSC as being "at risk" (large departments with a likelihood of taking industrial action) are subject to stronger SSC oversight. However, the union felt that SSC played a very active interventionist role in the PT negotiations.

As for most departments, this was particularly the case in the 1992-93 negotiations. The Government's determination that settlements be fiscally neutral -- not cost any more -- had no direct relevance to PT inasmuch as its settlement had literally no fiscal implications. But SSC's fear that a substantial, or indeed any wage increase in PT might again flow on to other departments, ruled out any effort by the department to take an initiative. This posed difficulties for management since the staff were able to point to the very healthy profits posted by PT, due at least in part to staff efforts, and to ask when they were likely to share in the fruits of their labour. Employees tended to compare PT to their private sector competitors, where record profits and major productivity increases would be more likely to be reflected in either bonuses to staff or a wage increase of acceptable size. They did not compare themselves to other government departments or consider that their settlement should be linked to those of other departments. For the Government, of course, this illustrates a problem of expecting its trading departments to maximise their profit levels without allowing them to reward employees for their contribution to that because of the flow-on implications to other departments. However, since PT is one of the very few remaining trading departments, this problem does not present itself often.

As discussed in the overview section, departments have found the role of SSC far less restrictive in the most recent negotiations in 1994. PT prepared a position paper for SSC at the beginning of negotiations and was authorised to negotiate on that basis. SSC was not represented at the negotiations, and although PT's HR manager kept SSC aware of progress, the department enjoyed considerable autonomy in reaching a settlement. On this occasion, the flow-on issue worked in the reverse direction from that discussed in the preceding paragraph. PT adjourned its negotiations to await a settlement in the major departments which were negotiating at the same time. Their settlement set a pattern for smaller departments, including PT. Its most important feature was a one-off lump sum payment to all staff of \$600. This was presented as a reward to PT staff for productivity increases and their contribution to PT's record profits, although it is hard to say whether staff find this logic convincing in view of the wide application of similar bonuses to staff in all departments which

have so far settled their negotiations. The contract has a term of 27 months which gives PT a period of stability before having to renegotiate employment conditions.

PT management sees as significant the constraints exerted by SSC through the salary levels set for Senior Executive Service (SES) positions. SSC uses a modified Hay system, which in PT's view produces below market rates. PT prefers the Price Waterhouse system. It argues that this means that departments are trying to get positions out of the SES in order that they can pay them real market rates. PT sees this as a major problem since they compete directly with the private sector for their specialist staff. PT management noted also what they see as inconsistencies in SSC's monitoring of PT's EEO programme. In PT's view, the emphasis from SSC changes unexpectedly on occasions, at times associated with changes in personnel in SSC's EEO section.

### *The relationship between Corporate HR and line managers*

When PT established a regional structure in 1988-89, the consultant, Price Waterhouse, recommended that human resource management be regionalised also. But in fact human resources was retained in Head Office except for some specific authorities delegated to the four regional managers. The department has preferred to retain central co-ordination, fearing that regionalisation of human resource management would bring four different ways of operating.

There has been some devolution. Regionalisation was intended to ensure more effective co-ordination than could be achieved with more than 50 branch managers reporting to the chief executive, but for this to work, regional managers had to be given authority previously held centrally. Thus regional managers have a measure of autonomy in managing staff within clear delegation guidelines. Appointment decisions have been delegated to regional managers up to a certain level, two steps below the branch managers. Branch managers used to appoint entry level staff but are now required to consult their regional managers. The quality of staff in the organisation is crucial, and with low labour turnover the emphasis is on making sure that good people are employed because they are likely to be there for twenty to thirty years. So the department tends to be conservative in its hiring policies as much as in its firing policies. Decisions about dismissals and discipline are made in the corporate office on recommendation from regional managers. Regional managers make pay increase decisions for individuals but they do this at a meeting of the four regional managers with senior managers from corporate office. This is an effort to ensure consistency and fairness throughout the organisation. Regional managers have responsibility for implementing the performance management system. Branch managers appraise their staff in terms of the targets set for them, but regional managers visit each branch office and interview each employee as part of their performance assessment. The small size of branch offices makes this feasible -- each regional manager is dealing with about 100 staff.

All pay negotiations are done centrally. Regional and branch managers don't attend pay negotiations. Although corporate HR believes they have input into the process, regional managers disagree. They see the negotiation of the collective contract as the area where consultation has not developed enough. Regional managers see themselves as better placed to judge staff mood. They argue that often so-called trivial issues have led to staff resentment which proper consultation with regional managers might have helped prevent.

Corporate HR sees itself in the role of offering advice, training and support to line managers. It has developed a personnel manual for branch managers. There is some training in new HR policy initiatives but not in disciplinary matters. Regional managers and the union are critical of the lack of HR training given to line managers. Branch managers are promoted for being good trust officers.



This does not necessarily translate into being a good HR manager. The department recognises the need to improve its management training. It has been developing a set of career competencies for management and the introduction of a career development programme in which the department and the manager accept joint responsibility for managing their career. This is directed not just at preparing for future career progress but for the branch manager, possibly in his or her mid-40s, who, realistically, will remain a branch manager for as long as they stay at PT and need to find ways to keep enthusiastic and up with new developments.

### *How HRM flexibilities are actually used*

The flexibility in HR made available by SSC's conceding autonomy to departments is used increasingly in PT. The early emphasis was upon industrial relations and getting the collective arrangements right. Achieving that has led the department to explore other issues such as career development and performance appraisal.

HR staff have been employed for the first time. A new bargaining structure has been developed. New skills have been recruited and appropriate reward structures developed for them. The grading structure in the department has been flattened with the intention of developing a multi-skilled system. The performance appraisal system has been extensively revised over the past year. A performance based remuneration system has been in place since 1989. The department is starting to introduce bonuses for high performing staff.

There has been considerable culture change within the organisation, including within human resource management. It has been tied into the performance appraisal system and into trying to get people to feel part of the department. Every member of each branch signs an agreement to the branch plan and individual targets tie in to the branch targets. A new computer system assesses the performance of individual branches and their capacity to achieve their branch targets. This has contributed to a high achievement orientation of staff rather than a task orientation. They keep a very close eye on what comparable branches are doing. Staff now realise that they are in charge of their own futures, that what they achieve is up to them.

### *Strategic interaction of HRM with corporate strategy*

Following the State Sector Act, PT employed HR staff for the first time. Previously HR had been the SSC's responsibility. PT employed only payroll staff and, in the year leading up to the State Sector Act, a personnel officer with mainly operational responsibilities. But, reflecting the size of the department, corporate HR remains relatively small. The HR Manager has two payroll staff who also do personnel work. He has a staff training officer and an EEO co-ordinator who reports directly to the Chief Executive. The EEO co-ordinator also has some wider personnel responsibilities. The two payroll people were there before 1988 and so the HR area itself has not expanded greatly. The HR manager reports to the Chief Executive. There is no management board, but there is an internal senior management group and informal links between the human resource and finance groups.

There is no specific human resource plan for the PT (there is a specific EEO plan as required by the State Sector Act). HR is part of the overall corporate plan. The 1994 corporate plan, for example, included as HR objectives the implementation of a strategy to increase the participation of Maori and Pacific Island people in the department, the establishment of an Advisory Group to advise on cultural issues of relevance to staff and PT, the adoption of the requirements of the recently passed Health and

Safety in Employment Act as minimum standards for the department and the inclusion of EEO objectives in the performance agreements for all managers. Branch plans include finance, EEO, HR, business objectives and these grow upwards through the regional plans to the corporate plan. It is intended to be an integrated top-down/bottom-up process. HR management is incorporated with the business planning process. The fact that the Human Resource Manager now reports directly to the Chief Executive assists the integration of HRM with wider corporate objectives. Regional managers are getting more input into the development of HR policies and are consulted more in the policy formation stage. This reflects the growing awareness in Head Office that there is a need for regional input. There is considerable opportunity for staff to have input into HR policies -- for example all staff were given the chance to comment on the design and operation of the new Performance management system.

### ***Reform strategies***

The Public Trust faced the same situation as other government departments. From 1988, it was required to take on all the HR responsibilities previously exercised by SSC, with the exception of the negotiation of employment conditions. From 1992, this responsibility was also delegated to PT within the constraints laid down by Government policy, as described earlier. Thus, sudden radical change in 1988 was followed by more incremental change. In a sense, the process has been one of revolution followed by evolution.

***Organisational structure.*** The most important organisational change has been the introduction of regionalisation in 1989. Previously, the PT had operated with more than fifty branches, accountable directly to head office. Now it has introduced a regional structure with regional managers having authority over those branches. As the earlier discussion of the HR role of regional managers shows, this has made possible a limited degree of devolution in HR. The discussion above also showed the changes made in the areas of occupational classification and grading, payment systems, performance appraisal and the integration of individual and organisational targets.

***Bargaining structure.*** As with other departments, PT moved from a series of occupational class agreements prior to 1988 to a single enterprise agreement. With the advent of the Employment Contracts Act, PT has taken advantage of the flexibility it offers to negotiate two collective contracts, supplemented by individual employment contracts for about 30-40 staff who decline to join the collective contract. The provisions of their contracts are identical to those of the collective. One of the collective contracts covers the majority of staff and the other covers branch managers. Branch managers are split off to prevent any conflict of interest. There is a group of about twelve to fifteen managers, including the regional managers, on individual employment contracts. The terms of these contracts are open-ended. They have largely standard conditions although there is some variation in benefits.

***Relationship with the union.*** The new organisational structure was negotiated with the staff and unions but, overall, there has not been as much union consultation in the PT as there has been in some other departments. There is, for example, no standing consultative process, but, as with the new performance management system, PT is consulting more directly now with staff, more so perhaps than with the union. But union membership remains at about 90 per cent. Apprehension about the future saw union membership rise above that after the introduction of the Employment Contracts Act, but this has now fallen back to its earlier levels. However, although there is high union membership, there is a fairly low level of activity. PT does establish joint working parties on some issues and operates through an exchange of papers which the PSA then sends out to its delegates. It does this

more often **than** operating by way of face-to-face working parties. The problem solving approach which **has** been introduced in some departments has not been introduced at PT. The union view is that although PT tries to consult, interpretations differ as to what is needed, but by and large, there is a good relationship with staff and unions.

*Reclassification and grading.* After the State Sector Act was passed, PT inherited the existing public service occupational classification and grading system, **as** did all government departments. The first collective agreement negotiated in ET made provision for 10 occupational classes, although the vast majority of PT employees fell into one of four classes -- accounting, legal, executive-clerical and typing -- with multiple grades within each class. PT moved quickly to revise its classification system. In 1989, it introduced **three** categories, entry level, skilled operators and technical/professional, with branch managers effectively forming a separate category. **Each** category contains ranges for particular positions.

*Performance management system.* The initiative for the PT's new performance appraisal system came from the staff, with major employee input into its development, reflecting the degree of cultural change in the organisation. It also reflected dissatisfaction with the operation of the ranges of rates system established following the State Sector Act 1988. Ranges of rates involved the replacement of salary scales with fixed incremental steps, by a salary range within which staff were placed on the basis of performance appraisal. One of the criticisms of the ranges of rates system was the fact that progression, or the lack of it, within the range lacked credibility. Another was the secrecy or non-transparency of decisions about individual employees. **An** objective and credible performance management system was needed **as** the basis of salary placement. Staff are appointed **at** 90 per cent of the national median for their position, **as** shown by the Price Waterhouse survey, and may progress up to 105 per cent or in rare cases 110 per cent on the basis of performance appraisal. **Any** additional payment above that is likely to be by way of bonus.

The focus of the performance management system is on staff performance and culture change rather than specifically on corporate objectives, but these are seen **as** a means to achieving corporate objectives. The performance management system is chiefly the responsibility of regional managers, although the corporate HR Manager co-ordinates the process. Regional managers review the performance of branch managers and, **as part** of the performance management system, interview all staff in the region. They also decide on the promotion of branch managers and branch staff, but in consultation with corporate HR to ensure consistency among the regions. The performance of HR functions is **part** of the performance agreements for regional and branch managers.

The performance management system contains objective-setting (with individual and organisational objectives effectively integrated), performance agreements among staff **and** managers, individual performance appraisals of staff by managers, and individual rewards based on performance. In the past, PT **has** used salary increases rather than bonuses, but is now starting to introduce bonuses **as** one-off performance rewards. In part, this is influenced by the common use of bonuses to reward staff by its private sector counterparts. Bonuses encounter some of the same criticisms **as** were applied to ranges of rates, particularly the fact that any appeal against a particular decision is made to the person who made the original decision. The major omissions from the performance management system are group rewards and sanctions for non-performance. Despite the considerable emphasis on branch performance and on branch employees working together to achieve common targets, PT has not moved to introduce team-based rewards. There is no provision for regression within the salary ranges. However, in terms of sanctions, there **has** been a more realistic assessment of management performance in recent years. Early retirement has been encouraged and several managers have taken up the option. The union sees the new performance management system **as** a major improvement --

particularly in the opportunities afforded to staff to have input into their assessment through the two-stage interview process, with branch and then regional managers.

### *Impacts of the reform strategies*

The impact of HR reform strategies has not been formally assessed. There is no formal evaluation of the HR function in PT which currently reflects the small size of the organisation, about 470 staff, and very low turnover. The HR performance by individual managers is assessed as part of their own performance appraisal. The evaluation of the HRM reforms that have been introduced has been on an ongoing or informal rather than formal basis.

Decentralisation from SSC was vital because it made other changes possible in PT. But in PT, human resources has probably been devolved less than other major management functions. Moreover, devolution within PT has not gone as far as in other departments.

Staff initially looked at even the limited degree of devolution in PT with some suspicion. Low staff turnover encourages entrenched views and a tendency to revere past practice. But over time and as PT improves at the implementation of devolved HR, the staff attitude is becoming more positive. The union is not opposed to devolution itself, and the union representative interviewed as part of this project, while emphasising that he was speaking for himself rather than articulating official union policy, called strongly for more devolution. He argued that there is still a perception that Head Office pulls more strings than people would like. He believes that staff are happier when decisions are made at a regional level as they are done more quickly and seem more relevant.

Union and management agreed on the main concerns of staff in the wake of HR reforms. The lack of a pay increase is a major issue, as is job security. But fair treatment is a crucial issue. This applies across a range of issues, such as equal employment opportunity policies, but is most often expressed with regard to the operation of the performance management system. A recent employee attitude survey conducted by the department showed that staff were worried about the secrecy of the assessment of each individual within the performance management system. They tended to accept the notion of performance management but wanted it to be open and transparent to ensure equity. Until this is achieved, they are likely to remain suspicious about the genuineness of performance pay.

There is general satisfaction with the degree of devolution of HR management. As noted earlier, the union representative interviewed would like to see it go further, PT management see it as having been vital to them being able to manage their organisation as an efficient, competitive trading enterprise. It is noticeable, however, that PT has devolved the least of the three organisations in this study. Many of those interviewed referred to the department as a conservative Organisation. This may reflect the nature of the work and the staff-- trusts, estates and the officers who deal with them tend by nature to be conservative, and this factor may predominate over competitive pressures. It may well be that private sector legal firms dealing mainly in the trusts and estates area tend to be conservative and rather more centralised also.

## **The Inland Revenue Department (IRD)**

### *Introduction*

Inland Revenue is one of New Zealand's largest organisations, employing 5 952 full-time equivalent staff at July 1993. The total number of staff has not declined greatly in recent years due to

the department taking on new responsibilities. The department's main activity is the collection of tax revenue and the offering of policy advice to the Government on taxation policy. This absorbs 75 per cent of its budget. The remainder is taken up by the administration of non-tax measures. These fall into four areas. In July 1992, the Child Support Agency was established within the department, taking over the functions of the Liable Parent Scheme, previously administered by the Department of Social Welfare. The Child Support Agency assesses the liabilities of non-custodial parents, takes action against non-compliers, makes payments to custodial parents and generally informs people about their rights and obligations in this area. IRD administers two income maintenance schemes through which payments of tax credits dependent on the number of children are made to low income earners. The department has responsibility for collecting repayments from the Student Loans scheme, established in 1992. This is done through a taxation levy once an individual's income reaches a threshold level. The department collects premiums for the accident compensation system from employers and employees and takes action against non-compliers. Finally, IRD also supplies specific and limited information to other government agencies to establish customer eligibility for certain government payments.

IRD is structured on a programme basis. A Management Board comprising the Commissioner of Inland Revenue, four Deputy Commissioners and four Regional Controllers oversees 12 Programme Directors, four processing centre managers and four function managers. Each region is divided into a number of IRD District Offices and Child Support Agencies. The great majority of staff (72 per cent) are located in the regions, with 14 per cent in the processing centres, 5 per cent in information technology and just 9 per cent in Head Office. The major programmes are Taxpayer Audit (23 per cent of staff), Taxpayer Services (19 per cent), Revenue Assessment (16 per cent), Debt and Return Management (11 per cent), Human Resources and Support Services (11 per cent), Child Support Agency (10 per cent) and Information Technology (5 per cent). The other five programmes (Legal Services, Legislative Affairs, Finance, Planning and Development and Special Projects) employ the remaining 5 per cent of staff.

As with many government departments in New Zealand, IRD has experienced a seemingly continuous programme of restructuring and reorganisation since 1988. In 1988, IRD established its new programme structure and substantially reduced its number of management layers. In 1990-91, it introduced centralised processing allowing it to reduce the size and functions of its district offices. Between 1991 and 1993, it restructured Debt and Return Management, Crown Revenue, Taxpayer Audit and Technical Policy. In the same period, it established Child Support, Revenue Forecasting, an Internal Audit function, a Programme Evaluation function, a Small Business Advisory Service and a Customer Charter. The period 1988-94 has seen a continual process of major changes in organisational development, ranging from the introduction of EEO policies and planning in 1988 to Total Quality Management Awareness and Strategy Development in 1990 and a Competency-based Manager Development Programme in 1992. Significant changes also took place in System Technology and Strategic Planning. During 1993-94 a fundamental review of the department was carried out. It is clear that the review will have substantial further implications for the department's structure and operation.

### *The relationship between the Inland Revenue Department and the State Services Commission*

As with other departments, the relationship between SSC and IRD falls into two categories -- the negotiation of employment conditions, where SSC plays a key role, and other aspects of human resource management where IRD is autonomous, subject to the SSC's role in monitoring its EEO policies.

In the negotiation of employment conditions IRD, like other departments, is obliged by SSC to remain within Government policy. Uniform policy constraints can create difficulties. The requirement in the 1992-93 negotiations for all departments to achieve savings through a reduction in redundancy entitlements was not highly relevant to IRD, which had previously followed a policy of downsizing through attrition and redeployment rather than redundancy. The emphasis on achieving savings through reductions in entitlement aroused employee suspicions that IRD might be planning redundancies. This prolonged the negotiations and gave rise to an atmosphere in which it was difficult to make progress on any other proposals for major changes that fell outside the SSC agenda. In IRD's case, this could have included pursuit of savings through eliminating its equalisation allowance, by which redeployed employees retain their old salary until the new one equates to it. On balance, however, IRD has been rather less constrained in its relationship with SSC than have many other departments. SSC has not had an observer present at the negotiation of the last four IRD collective negotiations. This reflects SSC's judgement that IRD is not an "at risk" department -- that there has been a fairly low likelihood of industrial action by IRD staff.

However, IRD has control over all other aspects of its management of HR. IRD managers do not feel themselves to be constrained by SSC's statutory obligation to promote and develop personnel policies and to monitor EEO policies. The chief executive of IRD is the employer of all staff and is responsible for the whole employment relationship. This control has allowed IRD to develop HR policies specific to its own circumstances which differ from those of other departments. These include the development of its own performance appraisal and job evaluation systems, its own recruitment and selection policies and induction procedures and the establishment of a human resource information system. The autonomous management of human resources has evolved over time since 1988. As departments grow in skill and confidence they are willing to innovate across a wider range of issues. IRD is now considering major changes to some of the policies and systems established in the first few years after the State Sector Act. It has established a remuneration working party to consider the direction of remuneration policy and has instituted a comprehensive review of its appointment procedures. The induction programme is being enhanced and a review undertaken of the linkages between pay and performance. Other areas of HR policy are also under examination.

### *The role of line managers in HRM and their relationship with the corporate HR group*

Internally, IRD has devolved considerable HR authority to line managers, particularly to District Commissioners (the managers of district offices) but also to managers in district offices below District Commissioner level. They exercise this authority within the framework of departmental policy. Thus, the parameters and the criteria for personnel decisions are not under the control of line managers but each particular decision about an employee is. This is a radical change from 6 years ago, when line managers made no staffing decisions. Line managers determine whether a vacancy exists, how to advertise, and whom to interview and hire. They are responsible for deciding the point on the salary range at which a new employee will be placed, for their performance assessment and their progress through the salary range, and for decisions about bonuses, promotion and discipline, although District Commissioners take responsibility for dismissal decisions.

The corporate HR division has grown in size but, more importantly, it is staffed by HR professionals and has a policy focus in contrast to the heavily operational focus taken by the personnel group before 1988. Corporate HR sees its function as that of assisting line managers to fulfil their role as managers. When it establishes a new HR process or policy, corporate HR provides senior line managers with appropriate training, information booklets and training delivery manuals. They then take responsibility for training their subordinates. Thus line managers are heavily supported but are

responsible for delivery. The IRD approach is to decide what authorities line managers need to manage staff on a day to day basis and to give that to them. The corporate office gives only support and advice in operational matters. It is a decentralised model with decisions made on site. An important source of on-site corporate support comes from the presence in each district office of a corporate services manager and a small number of staff. They can provide line managers with immediate advice and support and, where necessary, can refer matters to a regional corporate services manager and from there to Head Office where necessary. These queries act as an important source of feedback for corporate office managers about the issues facing line managers and about the clarity and appropriateness of the information supplied from the centre to district offices.

Corporate HR plays the key role in HR policy formulation, but in combination with line managers. Line managers have a significant input into the development of departmental policy on pay negotiations. IRD has a steering committee of senior line managers which considers a range of proposals which may come from other line managers or from corporate HR. The committee formally recommends to the CEO but effectively makes the key policy decisions on bargaining priorities and then oversees the bargaining process. In other HR areas, line managers will be represented on the project committee charged with responsibility for policy development and/or will be responsible for the implementation of a pilot project.

The union perception differs in that, while it agrees corporate HR is supportive of line managers, it also sees it as at times being directive about initiatives or decisions made at the centre. The perception of line managers themselves is that their HR role is radically changed. Before 1988, HR was easy for line managers to administer-- the answer to any questions was in the personnel manual or the question was referred to Head Office who either dealt with it or sent it on to SSC. Now line managers rarely need to refer anything to Head Office. They are given the autonomy to manage within their budgetary limits and within departmental policy parameters and are expected to do so. The shift to control over and responsibility for their own budget is a major change for line managers. The length of the salary ranges is an important source of flexibility for District Commissioners. It allows them to make their own decisions about the mix of staff and pay levels provided they stay within budgets. The length of the pay ranges also takes away much of the pressure for occupational reclassification. Where prior to 1988, most positions were located in bands of \$3000-\$4000, now most are in a range 3-4 times that in length. Staff do not need such frequent reclassification in order to continue to progress in pay. Occupational classification is still done centrally.

It does appear that a number of line managers are not fully comfortable in their new role. The corporate HR assessment is that by and large line managers are coping but that many of them would prefer a more prescriptive approach and want more help with decisions. The union assessment is that many line managers from a technical background and with little HR experience encounter difficulties in exercising their new found discretion in the HR area. They need more support than they get in performing the HR function. It is suggested by senior management that one reason for this lies in the distinctive culture of a taxation department. The legislation that guides staff in the performance of their core job--tax gathering--is highly prescriptive and gives little scope for flexibility or discretion. Line managers from a technical or tax background have difficulty adjusting to the exercise of discretion and flexibility that is so important in the management of HR. They would prefer more prescription and more support, even direction from corporate HR which is dragged back into operational issues more than it would like.

### *How HRM flexibilities are actually used*

The earlier discussion noted a range of areas where IRD has taken initiatives in the development of HR policy and practice. These have included recruitment and selection, job evaluation, collective bargaining, and performance appraisal. IRD tries to use the discretion and flexibility it has in HR to develop policies and practices that best suit its own organisational needs. This is not always successful, at least not immediately. The example of the devolution of HR authority to line managers, discussed above, is clearly a policy with a mixed record as yet. Changes in staff composition, a new bargaining system, new systems of financial accountability and, as outlined above, an almost continuous process of organisational restructuring, have placed great pressure on HR staff.

Forecasting the salary line has become crucial to controlling expenditure. These forecasts have generally been accurate. Managers have needed to take a more active line with the Management Board, which itself has had to get used to new issues. Previously, line managers weren't accountable for salary decisions, nor did they have responsibility for their salary budget. Now what IRD can pay its staff depends totally on what the Government is prepared to pay for IRD outputs.

The autonomy enjoyed by IRD gave it the freedom to develop its own specific approach to the process of departmental restructuring. IRD phased its restructuring in over a period of time. It relied on attrition and retraining to meet its skill deficit. The new freedoms in HR were also tested by major changes in staff composition. At the same time as it was downsizing by 1 400 overall, IRD had to cope with a large influx of new groups of employees. IRD greatly expanded its employment of accountants and information technology staff. This put pressure on IRD to develop new employment practices for them, especially in terms of remuneration policies where it had to remain competitive with the private sector. The loss of staff in other areas allowed it to do this in a period of resource constraint.

IRD also used the flexibility now available to take initiatives on bargaining structure and process. In collective bargaining, IRD now communicates directly with its staff without always having to go through the union. The department puts pressure on its managers to represent the departmental position to their staff. It does not feel limited to using the union as its only conduit to its employees. IRD has also achieved major changes in bargaining structure and in union representation. These are discussed below. In recent years, IRD has used the new flexibility to be more creative in areas such as medical insurance and departmental superannuation (the public sector-wide system is now closed to new entrants). IRD uses a prominent unit trust as the investment manager for its superannuation fund.

### *Strategic integration of HRM with the goals and activities of the organisation*

The status, size and responsibilities of the corporate HR group differ significantly from the situation before 1988. A Deputy Commissioner of Inland Revenue is responsible for human resources. She reports directly to the chief executive. The HR group has grown in size. The National HR Manager has 22 staff involved in policy development except for HR Information Services where the 6 staff are mainly operational. But it is not the bigger size that is significant but their composition and the nature of their responsibilities. Previously, HR/personnel staff were tax professionals who had shifted across. Now staff in corporate HR are experienced, tertiary qualified HR professionals. As noted earlier, prior to 1988, IRD's Head Office had a personnel group which was heavily operational in their focus. There was no need for that group to play a role in developing personnel



policy since that was SSC's responsibility. Similarly, IRD now has an industrial relations group which was unnecessary previously.

Corporate HR sees its role as to serve the wider objectives of IRD. Thus, the department seeks to integrate its HR policies and practices with its corporate strategy. Corporate HR believes that IRD's sophisticated strategic planning process ensures there is sufficient integration between HRM and corporate objectives. The planning process is intended to ensure that all actions by departmental staff are congruent with and contribute to wider corporate strategy. IRD holds an annual series of strategic planning meetings of the "inner circle" of key managers. These meetings consider key objectives for the forthcoming year, including discussion of HR objectives. The department then holds a national conference of its top managers which sets a framework of activity for IRD for next 12 months. This is followed by a national conference within each programme where it looks at how to integrate wider departmental objectives with its own concerns. Subsequently, each programme bids for resources in a budget round to allow it to meet the specific objectives it has set for itself. An extended Management Board, including Programme Directors, examines bids and make decisions. Programme directors are allocated resources and have to meet objectives within budget. Line managers are responsible for delivery. HR is part of this process, in an effort to ensure its integration with overall corporate objectives.

The department has a mission statement and a corporate plan, but although corporate HR has a business plan, it has no separate plan for HR. The corporate plan includes HR objectives. These are set at a fairly general level. The 1993/94 corporate plan sets out the key issues for the year as the successful implementation of the review of the Taxpayer Audit programme, support for the overall review of IRD and the development of a more comprehensive HR strategy. There are service standards included in the plan and the HR Manager reports every three months against these to the Management Board. The department's Summary of Current Human Resource Management Policies and Practices, a substantial 96 page document, sets out IRD's current policies and practices and objectives for the future in each area of HRM in much more detail.

The HR and Finance managers are on the same functional level and report to the same person. This and their easy access to each other ensures that they can link human resource and financial considerations. The perception by line managers is that all HR issues are now under firm financial control. In earlier days, line managers were unconcerned with budget limits. If they needed new staff they would apply for it. Now line managers are ruled by their budget and are always asking "can I afford it?" New staff can only be employed if staff or services are cut elsewhere. Budget constraints means that managers must always be consulting with staff to get their input. The emphasis is on "working smarter" and inside budget. But line managers concede that there is a limit to this process -- budget cuts can jeopardise quality.

IRD has had some success in integrating HR with wider corporate objectives but concedes that there is still some way to go. One reason is the issue identified earlier of the problems some line managers have in exercising HR responsibilities. Another is the pressure on corporate HR arising out of the process of restructuring which has made it difficult for them to take a strategic view. The main focus has necessarily been on coping with the scope and pace of change. Another is the tension between an organisational emphasis upon teamwork and an individual-based reward structure. More generally, the scope and pace of change, increased work levels as a consequence of downsizing accompanied by a virtual pay freeze have greatly lowered staff morale, despite the departmental policy of attrition rather than redundancies. On a recent Staff Attitude Survey, staff morale rated the lowest of the 20 major items. The department was, however, encouraged by the high ratings for items to do with an emphasis on quality, customer service and job understanding. So far, the organisational

contribution made by **HR** and the corporate **HR** team has tended to be directive in order to effect the changes required in the department. Further **work** is required to ensure support for the changes from all staff.

### ***Reform strategies***

Many of the key structural **HR** reform strategies across the public sector arise out of the State Sector Act 1988. This includes the good employer obligation which makes necessary the development of an EEO plan for each department, but also extends to many other aspects of **HR** as a result of chief executives being made employer of their staff.

IRD has made major organisational changes which have impacted upon **HRM**, the most important being the shift to a programme structure and a flattening of its management hierarchy. As discussed above, another key reform strategy **has** been the delegation of **HR** authority to line managers.

There have been major reform strategies in key **HR** areas.

### ***Bargaining structure***

IRD has developed a new bargaining structure. Following the State Sector Act 1988, IRD moved, as did all government departments, from a complex series of public service-wide occupational agreements to a departmental enterprise agreement. **This** covered all **IRD** employees except for senior management who moved onto individual employment contracts. The latter was a matter of some contention with the union, the Public Service Association (PSA). Prior to 1988, all public servants other than departmental heads and deputy heads were covered by collective bargaining and the union opposed the extension of individual employment contracts down through senior and in some cases middle management. This bargaining structure changed again following the Employment Contracts Act 1991 which permits an organisation to develop any combination of individual and collective employment contracts. The bargaining structure in IRD has 7 components:

- The great bulk of IRD staff (**4800**) are covered by the collective contract negotiated by the union and IRD.
- A second much smaller group (about **700**) of non-union members are employed under a collective contract separate from but identical to the union collective contract (with all references to the union removed). This contract is negotiated by the department with an in-house staff association (see below).
- A very small number of non-managerial staff exercised the option available to them under the Employment Contracts Act **and** negotiated individual employment contracts. These are identical to the collective contracts.
- **Three** members of **staff** who were covered by the previous collective contract have exercised another option available to them under the Employment Contracts Act and have chosen not to renegotiate their conditions of employment. This means that they remain covered by the employment conditions in that previous collective contract but these are now embodied in separate individual employment contracts.

- IRD has negotiated a separate collective contract for its managers to split ~~them~~ out from the large collective contract ~~and~~ forestall any possible conflicts of interest. It has also allowed IRD to bring in "at-risk pay" (5 per cent of salary) for managers which is dependent on their performance appraisal.
- Identical individual contracts apply to about 20 managers who stood aside from the managers' collective.
- Senior managers are employed on individual contracts which have an "at risk" component of 10 per cent.

In 1994, IRD renegotiated its two main collective contracts for 19 month terms. They included, as did most 1994 public sector contracts, a one-off cash payment to staff but no adjustment to basic pay rates. Otherwise, the contracts were essentially unchanged.

### *Relationship with the union*

Union membership remains very high in IRD (80-90 per cent) and a non-union or union-avoidance strategy is not an option for management. The collective contract requires consultation with the union over the restructuring process, although the substance of restructuring decisions remain managerial prerogative. In practice the department finds it difficult to confine consultation to ~~process~~ and to exclude substance. It has sought to renegotiate the consultation clause in the contract (it inherited it ~~from~~ SSC in 1988) but understandably the union ~~has~~ refused. Corporate HR sees its approach as one of co-operating ~~with~~ the union and consulting with staff ~~and~~ their representatives within the principle of management's right to make decisions. The union concurs that IRD does take this approach but tends to place more emphasis on the limitations of the consultative process. It argues that consultation often takes the form of the union being informed of changes rather than a genuine process of consultation prior to those changes being put into effect. However, IRD does routinely appoint union representatives to working parties on major HR policy issues, although recommendations from working parties are sometimes (but not always) changed by senior management. The union describes the department's overall approach as a problem-solving rather than an adversary one.

IRD does fund the in-house staff association that negotiates the collective employment contract for non-union ~~members~~. The association has now acquired an organisational structure with local and national delegates. It also has representation on working parties. There is limited competition between the PSA and the staff association for membership.

### *Grading and classification*

IRD has made major changes to its grading structure. The broad approach ~~has~~ been to collapse a number of grades into one with a long salary range. It ~~has~~ also substantially reduced the number of occupational classes. One indirect consequence has been reduced opportunities for incremental progression and ~~this has~~ negatively affected staff perception of career structure and possible career development.

### ***Work organisation and skill development, redeployment, retraining***

A major computerisation programme has changed tasks significantly and led to extensive retraining and redeployment to meet the skill deficit and to fit staff for new types of tasks. IRD looks for an average of 15 days of training per year per employee. In areas where there is extensive change going on this can be as much as 22 days per year. In an area like HRM where change is largely completed training days per employee is down to 8. Recruitment is now of more highly skilled staff. The department has developed competency profiles for each position and is asking staff to be more creative and analytical than in the past.

Corporate HR has taken the initiative in areas such as job evaluation, work flow analysis and job design processes rather than being impelled by necessity. Other changes have been driven by the restructuring process itself, such as refining work processes through computerisation. They market those initiatives to senior management and secure their approval and then consult with staff and their representatives. Corporate HR needs to demonstrate to senior management the value to the organisation of what they are proposing.

### ***Performance management***

IRD has made major changes to its performance management system. It aims to achieve corporate objectives, to improve staff performance and to develop staff. But it is ultimately geared to achievement of corporate objectives. The focus on efficiency -- achieving the same or better result for less input -- means that improving staff performance and developing staff are both important. Corporate HR provides the tools for line managers to carry out performance management, but line managers are responsible for it. The job description for each position personalises corporate objectives. Individual targets are combined with that and staff are rated on the achievement of both sets of objectives. As noted earlier, despite the emphasis on teamwork, there is no group performance appraisal or rewards although IRD is starting to examine this issue. The performance appraisal outcome may make staff eligible for pay increases, incremental progression, accelerated increases or bonuses. The outcome of the performance appraisal process is one of the inputs into the pay setting process for individual employees. IRD is limited in the direct sanctions it can apply for poor performance. Pay regression is excluded by the terms of the collective contract. However, IRD is not without remedies for unsatisfactory performance and its disciplinary process is designed to improve employee performance. There have been many complaints from line managers about how they can't deal with poor performers. Many think that private sector managers must be in a different situation and find it hard to believe that same personal grievance legislation applies. Corporate HR believes it will need to do more work with managers on the performance management system.

### ***The impacts of reforms***

The performance of the HR function is evaluated regularly in a variety of ways. The Staff Attitude Survey provides evidence of client views. HR is evaluated internally through the general management process. Corporate HR reports achievements against objectives quarterly. The bargaining round is assessed separately by the CEO. IRD has participated in the Price Waterhouse benchmarking study which has allowed it to assess its own performance in finance and HR against that of other organisations. The performance of line managers is also evaluated. The performance of HR functions -- people management -- is one of the criteria by which line managers are assessed.

Staff and management assess the impact of the reforms quite differently. Staff tend to prefer certainty and prescription rather than flexibility. Whereas managers are positive about the level of discretion they enjoy, staff are quite the reverse, as shown clearly by the Staff Attitude Survey. IRD management readily concede that staff have a negative view of managers. From their perspective, managerial discretion means that staff cannot predict what a manager will do next or how he/she will react to a particular situation. For example, some staff want more precise scoring in the performance management system so they can be sure of pay increase if reach the required level. Others are opposed to the very principle of performance pay, at least partly because they do not trust their superiors who carry it out.

Clearly a major concern for all employees is the absence of an increase in basic pay rates for several years. The union's view is that low morale is due not just to a lack of a pay increase but is because IRD has not brought its staff along in the major changes it has made. Moreover, the union believes there has been no time for consolidation following one series of changes. Instead, there is more change or talk of change. Staff find this highly unsettling and have become cynical towards the HR function. It is firmly agreed by both the department and the union that following a period of unbroken turbulence, IRD employees want and need a period of stability.

For its part, the department believes that IRD has been very successful in managing a process of continual major change, including core HR functions, especially performance pay and job design, while improving its relations with the union. Through all this, it has kept the core business of the organisation running efficiently. In the department's judgement, this has been a considerable achievement.



## HUMAN RESOURCE MANAGEMENT REFORMS IN THE SPANISH PUBLIC SERVICE

by James Adams

### Introduction

An understanding of the reform initiatives taken by the Spanish administration in the management of its human resources requires an appreciation of the country's social, political and economic context. The four main determinants of this context are, first, the process of the transfer of competencies to other levels of government (Autonomous Communities); second, the determination to modernise the public service as a key component in the drive to modernise the country generally; third, the impact of Spanish membership in the European Economic Community; and fourth, the current financial limitations, common to many countries, imposed by a recessionary economic climate.

The transfer of competencies from central to regional and local governments has meant that the central administration has accounted for a reduced share of public servants, and presented it with significant reorganisation and staff mobility challenges. (Currently, the central administration, excluding the armed forces, security forces and public companies, accounts for less than half of total public sector personnel.) Such a context explains the importance of the human resource management (HRM) reforms related to staff mobility and organisational streamlining.

The quest to progressively modernise the old bureaucratic structures is what accounts for most of the HRM reform efforts: standardisation, rationalisation, flexibility, equity, union participation, technological up-dating, client service, effectiveness, efficiency, and decentralisation are all objectives within this effort.

Membership in the European Community has had an influence on the Spanish public sector HRM primarily through its impact on the dissolution of public monopolies, for example, in the communications and oil-product distribution sectors. As we shall see, this sometimes presents significant challenges to human resource managers.

The influence of financial considerations has always been present behind HRM policy, but never more so than currently. The general hiring and wage freezes in place since 1992 are clear evidence of this important factor, which is also, of course, implicit in the efficiency, effectiveness, resource-use optimisation and other objectives.

The administration reported that its three most important HRM reforms over the past five years were considered to be the rationalisation of grading and career structures; the establishment of integrated union representation within the public service; and the government-union agreement on improving working conditions which drew the unions into the modernisation process generally and the Modernisation Plan of 1992 specifically.

The reasons underlying Spanish HRM reforms also explain why the numerous HRM initiatives carried out over the past ten years constitute less a coherent and integrated strategy, than a series of steps taken over a period of time with the overall aim of modernising HRM in the public sector, while responding to changes in society. The modernisation task is expressly seen as one requiring time, involving as it does the steady replacement of an administrative culture for one characterised by responsibility, agility and the attainment of objectives.

Although the case studies examined below reveal sometimes subtle variations in the experience of different entities within Spain's public service -- the status of the Public Entities (*Entes Públicos*), such as the Tax Agency, Airports, railroads (RENFE), is the most notable variation -- all the organisations are essentially governed by the same legal framework, which defines the nature of HRM reforms and the extent of HRM decentralisation. Since this framework is referred to often in the case studies, we shall here provide an outline of its essential features. It consists of four instruments.

First, Law 30 of 1984, on Measures for the Reform of the Public Sector (and its numerous amendments). This instrument established the basic jurisdictions and regulatory framework of every level of government in matters of human resources. Its amendments have striven to rationalise the Corps and grading systems; to extend the use of competitive examinations in new appointments and generalise the use of merit evaluations in promotions; to guarantee equal access and increase the representation of women and physically handicapped in the public service; to improve the match of job descriptions to actual tasks; to improve selection procedures and remuneration levels; to grant ministries more flexibility over timetables and schedules; to transfer various HRM areas from the central agencies to the ministries; and, most recently, to establish the conditions for Employment Plans.

The amendment introducing the Employment Plans became law on January 1, 1994. The purpose of this instrument includes the promotion of flexible and rational staff use and distribution; the control of new incorporations; the freeing of positions through early retirement incentives and phasing-out of tasks and the greater use of part-time schemes. The initiative can be taken either in the central agencies or in the ministries, and the plans can be tailored to particular areas or units. They consist of three possible reallocation stages: the first, carried out by the ministry in question, involves the reallocation of mis-allocated or surplus staff within their department itself; if the first option is not open, the second provides for placement, by the Ministry for Public Administration (Ministerio para las Administraciones Públicas, MAP), in other ministries or agencies; if none of these is possible, the third stage involves the staffs temporary placement in the MAP in re-assignment positions. Ultimately, those affected would be subject to forced redundancy.

Law 9 of 1987 (and its amendments) on Bodies of Representation, which brought the trade unions into the civil service in a comprehensive way, by regulating union representation and negotiation conditions, establishing representative bodies, regulating the right to hold meetings, and delineating union roles in working conditions, training, and occupational health,

The Budget Laws which set the limits within which the collective bargaining process can take place and the provisions for new incorporations.

Apart from this legal framework, an additional series of measures have *related to an* essential ingredient to the entire modernisation process, namely, information technology. A large number of reforms referred to in this report rely heavily on computerisation. The processing of HRM information and quick access to large volumes of data have naturally revolutionised the field and, in some contexts, even given the concept of decentralisation a different meaning. As we shall see, some



decentralisation that has taken place (especially between ministries and their regional line units) has come about partially because the information technology allows for greater levels of central supervision over the regions. Perhaps the geographic metaphor behind centralisation/decentralisation in this context can be misleading since, thanks to information technology, the "centre" can also in effect be "present", on line, in the "periphery". Indeed, this facility has permitted many central organisations to decentralise processes, particularly of administrative type, without worrying about loss of control or quality.

With respect to the theoretical foundations of HRM reforms, although elements of "new public management" thinking can be identified in some of them -- expressly in the Modernisation Plan and in the management training programmes, for example -- it cannot yet be said to be a driving force in Spain. This could be attributed in part to the stage that the reform in the public sector finds itself, i.e. perhaps certain levels of rationalisation have to be reached before one can move to more "progressive" programmes, particularly in a context of competency transfers to other levels of government.

Another important factor in reference to the acceptance and implementation of this thinking, however, relates to the varying receptiveness among different countries to ideas which, essentially, originate in the private sectors of other countries, in specific contexts, and in response to different problems. There are, of course, groups and sectors that are very receptive to introducing such ideas, but the thinking is still somewhat incongruous, both within the public sector and within the private sector itself. Indications are that this receptiveness is increasing as a result of the growing challenge of competition and a more demanding public: as we shall see, in the public sector this applies especially to the government agencies operating in a competitive market environment (e.g. the Post and Telegraph Agency) or in direct contact with the public (e.g. the National Social Security Institute and the Tax Agency); while the private sector, as a whole, is experiencing the need to adapt to the increasing exposure to competition, particularly from abroad.

Within this context, the key concept of HRM decentralisation, raises some analytical problems. As the report shows, even if the term's wide definitional scope allows it to be used by most respondents to suit their understanding of what is meant, sometimes one man's benevolent decentralisation is another man's binding central restriction. Despite this wide scope, no respondent could completely identify the Spanish experience in HRM decentralisation with the one implicit in the line of questioning for this study. However, this did not seriously undermine its effectiveness as a means of gaining a clear view of the status of HRM reforms in the Spanish central administration.

In this report we shall deal first with the central management agencies, that is the MAP and the Ministry of Economy and Finance (Ministerio de Economía y Hacienda, MEH) then the discussion will focus on the Post and Telegraph Agency, the National Social Security Institute of the Ministry of Labour and Social Security, and the Tax Agency.

### *The role of central management agencies in HRM*

#### *Decentralisation*

There are a number of basic reasons for the decentralisation of HRM from the perspective of the central agencies:

- to promote management efficiency in the ministries and public bodies, for which the flexibilisation of HRM is deemed indispensable;
- to grant greater decision-making capacity in HRM to managers, while giving them greater responsibility for the efficient use of their human resources;
- to adapt the personnel regimes (recruiting, career, etc.) of the different public sector organisations to the particular needs to be fulfilled and staff available;
- to promote staff motivation and performance; and
- to reinforce the policy-design, control and evaluation role of the central agencies.

Decentralisation, and HRM reforms in general, are essentially central agency initiatives, though consultation with the ministries is also part of the process.

The decentralisation policy has so far produced the following situation: policies are defined, co-ordinated and controlled centrally by the MAP and the MEH. The MAP-MEH co-ordination in this task is situated fundamentally in the context of the Interministerial Retribution Commission (IRC), which controls all aspects related to job classifications, retributions, staff size -- these are all included in the *Relaciones de Puestos de Trabajo*, referred to commonly, and hereafter, as the RPTs -- and relevant elements of the collective agreements. The IRC is the most important central decision-making body in the area of human resources. The Employment Plans are co-ordinated by the MAP and MEH.

The central agency (MAP-MEH) co-ordination generally functions well, though differences do arise. For example, the MAP would have liked to have promoted (controlled) decentralisation more in the area of modifications to the classifications.

All policies related to external recruitment (Public Employment Offering), provision of positions and so on, are the responsibility of the MAP, although it works with the (interministerial) Superior Staff Commission, through which the other ministries' participation is channelled.

The decentralisation applies across-the-board to all ministries, although the teaching, research, health, post and telegraph, administration of justice, penitentiary, and telecommunications sectors, have more independent power in this regard, because of the special nature of their human resources. Other public organisations, such as Airports and Ports and the Tax Agency, are Public Entities and enjoy greater levels of independence. But in all cases, ultimate financial responsibility lies at the centre, to ensure the State's budgetary limits are respected.

The administration of HRM has been decentralised to the ministries. Following criteria established by the central agencies, they administer aspects such as: external recruitment; provision of positions; promotions; certain changes in the RPTs (e.g. redistribution of positions within a unit or the elimination of an (empty) position); training; performance appraisal and bonuses; and the drafting of Employment Plans, for subsequent discussion with and approval by the central agencies.

The status of the Public Entities, all of which are involved in providing direct services to the public, probably presents a good indication of some the organisational models the government is likely to formalise in its Bill on the Organisation of Government, which will establish a clear and general typological framework for the various organisations. Consequently, the Bill is expected to

give a strong fillip to the public management reform process. The Bill died on the order paper when elections were called in 1992, and although the MAP and MEH are jointly working on a redraft, the details of its future presentation and passage through Parliament are not yet known.

It is important, however, to point out that the Bill contains proposals to increase managers' flexibility in HRM and otherwise, although this would be complemented with the strengthening of controls, which clearly indicates that the central agencies feel there is need to promote further Controlled decentralisation. For example, managers under the Bill would have some lee-way in changing the RPTs, including staff members' salary levels (within a controlled range), within limits set by the IRC. The Bill will also reflect the administration's intentions with regard to the types of public bodies it prefers for different kinds of activities, adapting their autonomy level to the nature of their mission, while strengthening financial and objectives control mechanisms -- the experience of the Tax Agency is important in this context.

Questions regarding the supervision, monitoring and specific sanctioning of decentralisation are not directly relevant, since the decentralised powers, with the exception of Public Entities like the Tax Agency, are essentially of an administrative type and governed by law. In any event, information technology provides the central agencies with the continuous supervision and monitoring capability it needs. There are no sanctions related to decentralisation, and the inspection services within each department, as well as those of the central agencies, would cover these matters in their audits and reports; it is felt that these central agency control systems should be strengthened in step with decentralisation, for example, in reference to the Public Entities.

The experience with HRM decentralisation is viewed positively by the central agencies, though some further effort is considered necessary. This relates to assisting the ministries in their tasks, through advice on information technology, performance evaluation systems, and management by objectives.

As already mentioned, performance bonuses are the only component of the salary package that has been decentralised. Most of the time this bonus is simply given to those working a two-shift day (morning and evening), as opposed to morning and afternoon, which naturally has little to do with productivity. Thus the bonus has by and large lost any of its incentive power and it is commonly considered a fixed component of the salary.

However, some ministries have developed, usually in co-ordination with the unions, distinct performance evaluation criteria for bonus payments. Indeed, experiments in the National Institute for Meteorology, the Superior Sports Council, the Ministry of Education and Culture, and in the National Social Security Institute, using more systematic criteria, involving rating levels and measurable performance objectives, are expected to be developed and applied elsewhere, including within the MAP itself (there are five such projects included within the Modernisation Plan).

Since ministries are granted different amounts for their bonus payment fund, there can be quite a disparity among the departments: indeed, the size of this bonus can lead to variations of up to 15 per cent in the retribution for two positions with the same classification and level in two different ministries.

It is expected that in the future the policy formulation, consultancy, guideline-setting and evaluation roles of the central agencies will be further developed and refined. The Employment Plans and the second phase of the Modernisation Plan -- which, like the first one, is project-oriented and

stresses, in ~~its~~ human resource section, work-force optimisation -- constitute the two new initiatives which will greatly define developments in the near future.

The central agencies should and do monitor the decentralisation, through reports on hirings, mobility, promotions, and so on. Central agencies, except in the case of the Public Entities, also have the last word on Employment Plans, RPTs, position competitions, and so on. There are also inter-departmental bodies, like the IRC and the Superior Staff Council, which monitor human resource matters throughout the public service. Furthermore, the Central Staff Registry -- which contains the entire RPT data base and through which each ministry can access its own RPTs -- periodically produces studies and reports on HRM in the ministries (e.g. staff numbers, Corps distribution in ministries, and distribution by geographic area and activity).

The decentralisation process has allowed the central agencies to acquire more of a strategic vision of HRM policy. This has led to significant structural changes, for example in the Directorate-General for the Public Service, following the decentralisation of administrative tasks in 1990. There have been some staff reductions, but generally job profiles have been changed to adapt to the new circumstances.

Although success indicators were not developed at the time of the implementation of decentralisation, the objectives were to attain greater management agility, and decrease administrative procedures and intervention. Together with information technology, decentralisation has, among other results, achieved: a reduction in the ordinary personnel procedure times; some increased capability in the ministries to adapt their internal organisation; greater involvement of the ministries in personnel management; more time for the central agencies to deal with broader issues; and greater management ease for the ministries through the use of the RPTs.

### *Reform strategy*

There is a general HRM reform strategy, but it is situated under the headings of the modernisation and resource optimisation strategies pursued over the past ten years, and within the more recent deficit-reduction strategy. It ~~has~~ been progressive in character, involving a series of initiatives taken over time (rationalisation of grading and classification, RPTs, enhanced mobility, introduction of information technology, decentralisation, Employment Plans), which, rather than constituting an integrated HRM strategy, are measures within an on-going drive to make the public service more modern, effective and efficient. This is a process which adapts to changing circumstances and incorporates implementation lessons learned.

The feeling today is that, in light of the advances made in terms of decentralisation of HRM and information technology and, most importantly, given the budgetary constraints, the priority lies in the optimisation of human resources. This is to be done by limiting external hiring (thus the cuts in the Public Employment Offerings) and by rationalising current staff (thus the new Employment Plan instrument),

The strategy has been initiated and directed within the government by the central agencies. Draft legislation is discussed by, and input received from, all the ministries, inter-departmental bodies, inter-governmental bodies and relevant union organisations.

Similarly, most reforms (e.g. those involving amendments to Law 30) have been top-down, though some cases, the most important of which being the 1992 Modernisation Plan, involved a great

deal of open debate and discussion within departments and with outside experts. This process also included the conduct of a Delphi study in 1990 to get the anonymous input from the management group civil servants themselves (313 Directors-General, Sub-Directors General and General Secretaries). The outcome showed that the top four future issues for this group were, in order of importance: management training; introduction of new technologies; creation of a new administrative culture; and decentralisation of decision-making.

Some components of the strategy, such as the performance evaluation and bonus payment schemes and management by objectives programmes, have been introduced on a pilot basis, but most of them have not.

Training needs resulting from the reforms have been taken into consideration, and HRM and "public management" in general are among the subjects offered in the INAP (National Institute for Public Administration) training programmes, the content of which is the subject of continuous consultation with the ministries. Furthermore, internal training programmes are conducted in the ministries and agencies and some contain HRM courses.

#### *Assessment of HRM reforms*

The criteria used to evaluate each of the different elements of the reforms of course vary. For example, the success related to the investment in information technology in human resource units is proven if it frees staff from routine procedures and allows them to engage in other tasks. Decentralisation, in turn, should be reflected in terms of greater management agility, while within the Modernisation Plan, every reform project incorporates its own evaluation process.

In general, the reforms are also evaluated on the basis of cost, efficiency and effectiveness, which reflects the strategy aimed at optimising the use of current human resources and limiting new hirings.

The assessment is done in the ministries themselves, while the Superior Staff Commission and the Public Service Co-ordinating Commission provide the opportunity for a learning loop through their co-ordination, communication, and contact roles.

The Modernisation Plan has its own evaluation procedure, which is conducted by the Minister responsible (who reports to Parliament on his/her ministry's reforms) in collaboration with the MAP, and is monitored by two committees: one chaired by the MAP minister and the other, higher-ranking one, chaired by the Deputy Prime Minister. Furthermore, the MAP Minister reports to Parliament on the Modernisation Plan's implementation.

The impact on resource allocation has been reflected primarily in terms of the level of outside recruitment. As an indication, in 1994, there was negative growth: the 6 000 new positions on offer, all exceptional cases within the hiring freeze, not making up for the approximately 15 000 terminations.

The reforms imply benefits for the public, even if indirectly. This, because a more efficient HRM and better motivated public servants, ultimately, result in greater quality and effectiveness in the provision of public services. At the level of contact with the public, a "Quality Observatory" has been set up to measure performance; it includes 12 areas of public service and is expected to incorporate others. Further, a number of agencies and ministries with direct public contact have used questionnaires and other tools to gain public feedback on their programmes.

The central agencies control reform implementation through continuous contact with the ministries, reports to the MAP and MEH ministers, and through bodies like the IRC, the Superior Staff Commission and the Interministerial Commission for the Acquisition of Information Technology.

More specific mechanisms are found in the operational inspections of MAP's General Inspectorate of Services for Public Administration and through the MEH's General State Auditor, which tends to focus on, but not exclusively, financial issues.

With regard to the Modernisation Plan projects, evaluation **has** been institutionalised. With respect to decentralisation, it is part of the task of the central control bodies. In terms of the ministries themselves, evaluation is more and more common, and is reflected in the existence within the organisations of evaluation units. These can propose improvement measures on the basis of the results.

### **Post And Telegraph Agency (*Organismo Autónomo Correos Y Telégrafos* -- "ACT")**

#### ***Introduction***

The Spanish Post and Telegraph Autonomous Body (ACT), like its counterparts in other OECD countries, is confronting the challenges faced by rapidly changing communications technology and the increasing role of the private sector in the industry. In response to this situation -- which was being reflected in the ACT's decreased market share in some sectors and significant deficits -- its status **was** changed from that of a Directorate General into an autonomous body on January 1, 1992. In its new capacity, however, it still remains under the jurisdiction of the Ministry for Public Works and Transport (*Ministerio de Transportes Turismo y Comunicaciones*).

The objective of the new status **was** to give the ACT more management flexibility with the medium-term objective of becoming completely self-financing, while fully meeting clients' demands. The main change related to the autonomous status lies in the organisation's newly-gained right to negotiate business terms with its clients, and thus respond to the challenge of private competitors. Its status and operating environment have, however, not entirely been established, since it has to respond to a very competitive market in some (non-monopolised) business **areas** (e.g. **rapid** delivery, parcel service), while providing universal postal services **as** a monopoly public operator to all citizens in others. The exact implications of this, in terms of its independence and financing, and its role in the introduction and operation of new telecommunications technologies, have yet to be agreed.

Within **this** unsettled context, the ACT operates **as** one of the nation's largest employers: in 1993 its staff numbered 65 579, a level similar to that of the last few years, before which there were wide variations. Its staff is naturally widely spread: it has 52 Provincial Offices, which are co-ordinated by 10 Regional Offices. Naturally, its service and personnel needs are particularly sensitive to changes in the distribution of economic activity and population, and to developments in transport systems and technology.

#### ***HRM flexibility***

The new status has not involved any increased autonomy in the area of **HRM**. The organisation **has** not therefore undergone a process of HRM decentralisation distinct from the general ones referred to in the introduction to this report. It has, however, given those in charge of **HRM** more direct access

to the IRC when making submissions for new hirings, for instance (before they had to go through the Ministry responsible).

The ACT is one of the organisations referred to explicitly in Law 30 as having its own particular collective bargaining process (salaries and employment conditions), but this is naturally conducted within the State Budget's parameters.

Thus, the ACT requires the approval of the central agencies for new hirings or changes in the RPTs. Its independent responsibilities refer essentially to personnel management, for example, return from leave, retirements. In August 1992, the IRC gave the ACT special permission to increase the number of its staff in the higher (A and B) groups, and the possibility of contracting staff for specific technical, administrative and advisory management positions (e.g. medical doctors, security chief, marketing director).

Since the freedoms the ACT has in the area of HRM essentially relate to personnel administration, it does not have the leeway it feels it needs to manage its human resources dynamically, and thus respond to the demands of the environment, be they determined by the market or society generally.

Specifically, in the first place, the ACT feels it needs to have a lot more say in the selection process, because it feels that the criteria used do not adequately reflect the organisation's needs. A proposal aimed at resolving this significant problem is currently awaiting approval; in this case, among other things, it would involve making possession of a driver's license a prerequisite for those competing for mail delivery positions.

Secondly, the ACT has serious problems in the distribution of its human resources; it calculates it has about 1 500 poorly allocated personnel. This is the result of the combination of operating in an industry affected by rapid change, with a labour force which cannot be redistributed. Changes in the population distribution is the reason for part of this problem, but so too are changes in the postal business practices. For example, it has employees in tasks related to the organisation's historical use of the National Railways for up to 95 per cent of its mail distribution. Now that this proportion is dropping drastically, the ACT has to reallocate these workers. For this reason, the ACT is optimistic about introduction of Employment Plans as a possible answer to such problems.

Third, the ACT has a very high proportion (20 per cent, down from 25 per cent in 1992) of temporary contract employees, most of whom are in the lower levels of the organisation; and it sees as one of its priorities the change in their legal status to that of civil servants. This would stabilise and homogenise the work force and thus render management more effective, while also improving these employees' prospects and mobility (since many positions are reserved for civil servants). The ACT is succeeding in doing this, but not as fast as it would like. It calculates that it needs about 3 000 positions in the RPTs for part of its temporary employees (this would have only status, but no financial implications). As a procedure that has to go through the CIR, it takes more time than the ACT would like.

### *Organisation of the HRM function*

There has been some recent structural reorganisation within the ACT. In November 1992, Human Resources was made into a new and separate Directorate, after having been a Sub-Directorate General. Under the Human Resources Directorate there are three Sub-Directorates: Personnel

Management with 250 people; Industrial Relations (13 people); and Planning (90 people). The 52 Provincial offices have Human Resource Units, whose size depends on the number of operating units and the size of the staff in each province.

Since the acquisition of autonomous status, there have been no significant changes in the size of the staff dedicated to human resources or in their composition.

The Director and Sub-Directors in charge of human resources are on the Management Commitment of the ACT and report to the Director General.

The Human Resources and the Financial Directorates have the same organisational level. In terms of operations, Human Resources administers all budgetary items related to personnel expenses, while the Financial Directorate is responsible for all the paperwork.

The ACT is currently carrying out a regional decentralisation process in all its management areas, including operations, finance and human resources. The objective of this process is to bring management closer to the client level, with a view to responding more efficiently and faster to immediate needs. With respect to HRM, the plans are to decentralise the various aspects of personnel administration (e.g. formal aspects of incorporations, terminations, leave, returns, retirements, etc.). These will be controlled in the corresponding Regional Offices. The central Human Resources Directorate will retain the ultimate control of these matters and of any competencies which, by definition (e.g. position competitions) are national in scope. The central offices are also in charge of negotiations with the unions.

An important consideration in this decentralisation process, is the need to train those who have taken on new tasks, and those who will do so in the future, in the new skills. Training programmes have been conducted in-house and are being given increasing importance.

The ACT is a very centralised organisation. The HRM competencies of its peripheral units do not go beyond payroll responsibilities. The peripheral unit heads would like to see the organisation much more oriented to the reality at the customer level. In response, there is a two-month-old experiment giving provincial managers, under the co-ordination of their respective Regional Directors, flexibility in their use of their temporary employees, which can be crucial in periods of large swings in public demand for services (e.g. during holidays in resort areas).

#### *Mission statement/corporate plan*

The ACT has a Corporate Plan, which encompasses all aspects of the business and includes a section on human resources. It is thus a kind of hybrid corporate-business plan. The subheadings of the human resource section deal with strengthening the management team (training and development, determination of skills, recruiting); organisation model (moving towards a private-sector modelled organisation); standardisation and improvement of labour relations; personnel regulations (better and more decentralised selection systems, position classification, greater stress on skills, specialisation and performance); work force (reducing number of temporary workers); and training.

The plan includes quality targets to be met in client service. However, it does not include productivity standards, which are currently the subject of negotiation with the unions, following the conduct of in-house and field studies.



The integration of the HRM elements into the corporate and business plan occurs, in effect, through the establishment of organisational policies and strategies affecting all areas of the ACT's activities. The plan sets specific human resource targets in terms of maximum staff size, category distribution, the cost limits and financing.

### *Performance management*

There are no performance targets at the division/work unit/individual levels. At the organisational level, however, management by objectives has been used.

The ACT does not have performance management systems, be they individual or group. The only salary component related to pay is the productivity bonus given to those, as a matter of course, who work the morning-evening shift. The ACT believes it could make effective use of performance bonuses if it had three times the funding -- currently the bonus amounts to about 2 per cent of the salary budget -- and if it were made a function of the kind of objective criteria, such as number of items delivered, that are being established in the standard setting exercise mentioned above.

This same standard setting project involves the establishment of productivity standards and service quality standards, and includes a client responsiveness component for each position in the ACT.

### *Evaluation of HRM*

Every two weeks the Human Resources Committee, chaired by the ACT's Director General, meets to evaluate human resource management. Apart from developing new initiatives and projects, the committee evaluates all initiatives already implemented, using quantitative criteria, such as staff numbers and financial resources employed.

## **National Social Security Institute (*Instituto Nacional De La Seguridad Social* -- "INSS")**

### *Introduction*

The National Social Security Institute (INSS) is a government agency within the Ministry of Labour and Social Security (*Ministerio de Trabajo y Seguridad Social, MTSS*), which is responsible for the provision of pension, disability, widowhood, and orphanhood benefits. As such, it manages an significant budget of more than Ptas 6.3 billion, approximately 90 per cent of which relates to the payment of pensions to about 6.5 million citizens.

The INSS has been cutting back on its work force over the past few years, and now has a staff of 13 545 people, 891 of whom are located in the Central Offices, while the rest are spread among 52 Provincial Offices and their 370 (projected 490) INSS Service and Information Centres.

The huge number of citizens affected by the INSS and the need to modernise its operations made the organisation an ideal place to institute a change programme. This was begun in 1988, with the arrival of a new leadership. The focus of the programme was placed on the introduction of a client service culture to replace the traditional administrative one. This involved a comprehensive set of measures including a complete physical rehaul of its points of contact with the "clients" (the new term employed), e.g. serving of clients at desks and not counters; a significant investment in information

technology; a thorough training programme to inculcate a client service culture; changes in administrative language; introduction of management by objectives (which were usually, to begin with, related to the simplification and rapidity of client service); and the introduction of a performance evaluation system.

Feedback from the clients, which is gained on a continuous basis through questionnaires, reveals a very favourable approval rating (approximately 80 per cent of users consider the service "very good"). As a result, the INSS has become something of a flagship to the administration in its public sector modernisation programme.

Perhaps surprisingly, these accomplishments have not been accompanied by changes with regard to the INSS's situation within the government organisational structures. An examination of the organisational chart position of the INSS shows that it is, organisationally, most encumbered of the three case studies examined in this report.

The Director General of the INSS reports to a General Secretariat (Social Security), which in turn reports to the Minister. However, policy issues in human resources, for example, changes in the RPTs, are raised to the Minister through a separate Sub-Secretariat (Labour and Social Security), by means of its corresponding General Sub-Directorate and General Directorate. This complicated path that INSS proposals have to take within the Ministry (before they can be brought before the central agencies), causes frustration within the INSS.

### ***HRM flexibility***

As noted above, the INSS is, in effect, in the area of human resources a line unit of the MTSS. The Ministry itself has been the subject of the administrative decentralisation that has affected other ministries, but the degree to which the INSS has benefited from this is limited. Ministerial Orders over the past few years have delegated the organisation some of the administrative powers that, by a 1985 Ministerial Order, had been transferred to a higher level in the organisation. These Ministerial Orders establish the limits of their action. This situation led the respondents to focus on what makes the INSS's experience unique, and not to construct answers around what they viewed as a practically non-existent process of decentralisation.

The most important HRM tools that the INSS has are training, performance evaluation, and some limited lee-way to shuffle positions within the RPTs. In the first instance, their aspirations would be to have all the HRM powers delegated to the Ministry itself, thus giving the unit direct control of its human resource policy, even if only within range of flexibility available in the administration generally. HRM reforms have been planned by the Central Office with the co-operation of the peripheral ones and the unions.

### ***Organisation of the HRM function***

About 500 people work in the human resources area throughout the organisation, of whom about 80 work in the Central Office. The human resource function is responsible for those actions related to any variation in the administrative life of the INSS employees (incorporations, terminations, provisional appointments, transfers, etc.). It is also responsible for the development of policy proposals connected to personnel, for reports on the staff needs of the other units, and for the development of the INSS policy on Social Action -- i.e. measures related to employee benefits, like education grants, complementary health assistance -- training, occupational health, staff punctuality

and attendance control, and the evaluation and payment of productivity bonuses. Further powers that would be appreciated by line managers include promotion, staff mobility, and schedules.

- The INSS has no managers employed on contract.
- The Internal Organisation Sub-Directorate, which is responsible for the Human Resource Management, Training, Internal Organisation and Installations service units, is only two years old. The Sub-Director General, who heads the Sub-Directorate, reports directly to the Director General of the INSS and is a member of the Management Board.
- The only significant HRM change to have taken place relates principally to freedom in using the productivity bonus, as the part of the pay package truly linked to meeting objectives, as it sees fit.
- The links between the human resource and financial function relate to drafting of the budget proposals.
- The relationship with the central operational units consists of communications regarding budgeting, financing and inspections, for purposes of financing and cost control. The Legal Counsel Office is approached for specific issues and reports, while communication is ongoing with all units on staff needs for planning purposes.
- Same administrative human resource competencies, as noted above, have been decentralised to the Sub-Director of Internal Organisation and to the provinces (Provincial Directors) as per Ministerial Order.

The pay negotiations are conducted at a national (civil service) level within the framework of the Budget Laws; with no INSS input whatsoever. Nevertheless, there is a collective agreement encompassing staff working in the administration of social security, in which the INSS participates, though its final approval is the responsibility of the MTSS.

The operational units have responsibility for the attendance control of their staff and for the performance evaluation of their management groups. They have some organisational flexibility in that they can vary the formal structures within their units.

Assistance to the line managers in the area of HRM is given in a number of ways: first, the new incorporations are given welcome, organisational mission and incorporation training courses in the INSS. Second, a parallel, internal, training programme is given to provide those taking on human resource responsibilities with the necessary management instruments and mechanisms. Lastly, an internal information office has been established, to provide the employees with news on personnel issues. This is also a permanent communication channel open to the provincial offices.

With respect to training in the area of human resources, there has been an increase in the allocation of staff and funding. The INSS, together with the unions, has focused carefully on the design of the training programmes. Course evaluations are used to monitor and adjust the courses, and future plans include on-the-job training.

An additional, and unusual, initiative taken in INSS is the establishment of a suggestion box for employees to attract proposals for improvements in work processes and systems; the best suggestions are granted prize money.

### ***Mission statement/corporate plan***

The cultural change effort of the INSS has been accompanied by an appreciation of the importance of a mission statement. It is integrated into the corporate plan, basically through training of top and middle management. The human resource component aims essentially at greater efficiency and efficacy. HRM is integrated into the plan inasmuch as studies of requirements, training plans, general features of social action and occupational health, and RPT proposals are reflected therein.

### ***Performance evaluation***

The performance target system is one of the most developed in the Spanish administration. Performance objectives are set for all operational units dealing with the public, and employ objective measurements related to volume and quality of tasks performed (e.g. number of cases administered, service quality, information quality).

There is a performance management system, objective setting, performance plans, individual appraisals, rewards/sanctions, and individual and group performance bonuses. The objectives are set on an annual basis. They are negotiated with the units after the elements to be assessed are decided upon in the Central Office. These may change from year to year. For example, this year elements of the personnel policy of the units will be part of the evaluation package; this includes training, absentee control and internal communications. Also this year, for the first time, occupational health will be among the criteria applied to judge performance.

The productivity bonus, as mentioned before, is the only decentralised component of the salary package, and it is thus the means used by the INSS for its payments. The bonus system was first introduced in 1991. It is paid every six months, and is divided into those bonuses paid, on an individual basis, to the management group members (levels 24 and up), and those paid to the lower levels, as members of operational groups. The objectives are quantifiable and the ratings set at three levels: high, normal and low; the high level receives 50 per cent more than the normal one, and the low level 50 per cent less. The bonuses are divided equally among the group, although the amount received by each person can be varied on the basis of individual performance. The individual bonuses given to the managers are related to the success of the group they manage.

The bonus has not been debased, not only because it is linked to results, but because only the top thirteen offices can get the high rating. The unit is informed of its standing and that of the best performer, to give it a reference. In the beginning the high rating would imply a 1-3 per cent increase in the base salary, whereas today it is equivalent to 7-10 per cent. This, the INSS believes, is adequate. A further challenge is to apply a similar system to the less easily measurable activities carried out in the Central Office.

The objectives of the performance management system are ultimately to bring the INSS closer to the clients, by creating an effective and efficient modern entity, which is governed by a client service culture. Staff development is implicit in this process. The managers of each area, both centrally and in the provinces, are responsible for managing the performance system of their groups. The HRM performance is not directly included in the managers' evaluation, though it is implicitly, inasmuch as their evaluation and bonus are linked to that of those they manage.

## ***Evaluation of HRM***

The decentralisation of HRM is seen as completely inadequate. The organisation feels it needs a lot more HRM flexibility to meet its objectives. As an indication of its problems, the last time the RPTs were significantly altered was in 1987. Although it has modernised its operations significantly, its staff structure and distribution often reflect previous organisational systems. The result is that the INSS has groups of people with different classifications (and thus different pay levels) engaged in the exact same work. In some areas it also has problems with surplus employees, who cannot be transferred. The current evolution of the requirements of the INSS, with a greater weight of activity at the provincial level in the Service and Information Centres, might make staff transfers from the regional level recommendable. The Employment Plans may be useful to this end, although the criteria employed by the central agencies in their approval are not known.

## **The Tax Agency (*Agencia Tributaria*)**

### ***Introduction***

The Tax Agency began operation on January 1, 1992, as part of the administration's attempts to modernise its tax collection system. It currently employs 26 253 people, 85 per cent of whom are located in the peripheral offices. The staff number has decreased by 1.01 per cent since the agency's start up, on account of the government's general hiring freeze.

The law setting up the Tax Agency endowed it with the HRM powers previously held in the upper management levels of the MEH (the ministry in which tax collection services were previously located) plus new ones, which no other ministry enjoys. This autonomy has given the agency an enviable position in the eyes of many other government organisations, and caused some concern in the central agencies. It has also provided the opportunity for the development of a new, management-by-objectives culture within the tax collection function.

The Tax Agency's autonomy makes the organisation unique within the Spanish context and the subject of many comments in the administration. One of its features that came up often in the different interviews refers to the fact that the pay levels in the Tax Agency tend to be higher than elsewhere in government. The explanation for this is that the agency employs highly skilled and trained professionals who are in great demand in the private sector, and therefore must attempt to compete with the latter's salary rates.

In fact, the agency has historically had difficulties holding on to its personnel, particularly at the Inspector and Sub-Inspector levels. This problem has been assuaged with the passage of a 1993 modification to Law 30 of 1984 obligating all public employees to remain in their position for five years before being eligible for leaves of absence. Further, the agency has the power to retain those employees who are members of the *Corps*, scales and specialisations assigned to it and who desire to move to another government post or geographic location. An added problem in this context is that the Spanish conflict of interest regulations allow all Tax Agency staff to work for an agency "client", immediately upon terminating employment with the agency -- the only exceptions to this are the top managers, who must wait two years.

This disparity in salary levels can of course create resentment in the public service and, in the context of the increased mobility, resulting from recent reforms, might lead to problems in managing staff-levels, as staff from other agencies are attracted to positions in the Tax Agency -- though the

agency itself feels that the position requirements prevent this from happening. For this reason, it is sometimes suggested that part of the solution to this disparity problem (both in terms of morale and mobility) will come with the passage of the Bill on Government Organisation, which will clearly define the different organisation types, and probably limit staff mobility among them.

### **HRMflexibility**

The most important powers the agency has, and which distinguish it from other ministries, are the right to: to issue Public Employment Offerings; to reserve positions exclusively for its Corps, scales and specialties; to approve the RPTs and their modifications; to design and approve examinations for internal competitions; and to approve the regime for access to its Corps, scales and specialties. Despite these freedoms, the agency is still also explicitly subject to Law 30; this, it feels, restricts its flexibility considerably through the imposition of a generalised model and limits its ability to innovate in the area. All HRM reforms implemented in the agency have originated in the Human Resources Department, with the participation of the units affected, central agencies, unions and professional associations.

Although many of these constraints are formalities, such as naming the civil servants to the agency, some are considered quite onerous. For example, the MAP maintains control over aspects related to its Corps and scales in the agency (e.g. determination of position, naming of temporary appointments, re-incorporation). In the context of any Tax Agency Employment Plans that might be carried out, the MAP also has a number of powers. Finally, the central agencies have the power to delay, by twenty days, the termination dates of those agency employees changing positions as a result of a competition.

The other two main problem areas relate to the Public Employment Offerings. As mentioned above, the agency has all the powers in this regard, but because of the current difficult financial situation, the government has suspended this right, thus regaining control over the agency's outside hiring. The second issue with regard to the Public Employment Offerings, is that the agency must participate in those plans implemented in other departments. In 1992, for example, it had to take in 36 employees of CAMPSA, the state oil-distribution monopoly, whose restructuring resulted from the European Community directives on this sector.

The agency is, nevertheless, satisfied with some of its accomplishments regarding HRM. The first relates to the transformation of 2 750 members of its staff from their contract status to that of civil servant, thereby increasing the proportion of civil servants to 70 per cent of the total staff, and thus furthering the process of staff homogenisation and improving the integration and prospects of these employees.

The second refers to the acceptance by the central agencies of two specialty occupations (Tax Administration and Public Finance Agents), which amounts to another step toward the development of promotion and career systems for Corps, scales and specialisations assigned to the agency. In addition, steps have been taken toward the development of a highly participative labour relations model, including both the unions and the professional associations (which have no *de jure* role but have significant *de facto* importance). Finally, the training programme has been increasingly bolstered, with a view not only to improving the staff's technical and management skills but also to instil a shared organisational culture.

### ***Organisation of the HRM function***

The Department of Human Resources is a central unit reporting directly to the Director General, and is situated at the same level as the other departments. There is also a small number of administrative positions in the Regional Offices engaged in simple personnel administrative tasks, such as payroll and permits. The staff number 134, and this has not varied in size since the creation of the agency. Managers all have civil servant status and are not employed on contract.

In 1992, upon the establishment of the Agency, most of the competencies for the routine administration of human resources e.g. retirement, leave, pay-roll -- were transferred to the provincial level. In 1994, this experience was reviewed, and it was decided that pay-roll matters should be concentrated at the regional level (an action made possible by the new information technology capability), while the other aspects could remain at the provincial level. The other decision taken at the time was to centralise, in the Human Resources Department of the Central Office, the control of exceptional activities that had some impact on salary levels, e.g. those resulting from the execution of judicial decisions which, given their importance and complexity, were seen to require the maximum homogenisation of evaluation criteria.

Some other central units have been delegated limited powers in the area of human resources, such as permits for training and others without significant financial implications, and filing of disciplinary actions. For the sake of harmony and efficiency, however, there has been a general process of centralisation of HRM functions from Central Office departments to the Central Office Human Resources Department.

The heads of the Regional Offices have a number of ordinary personnel-related powers, with the exception of those of more significance for the Central Office, like provisional re-incorporation from forced leave and voluntary retirement, declaration of voluntary leave for personal reasons, and the granting of advances. In exercising these tasks, the central and regional units are given assistance by the Department of Human Resources through: instructions and circulars; courses; meetings; a procedures manual; reports on particular questions raised; constant availability for consultation.

The salary negotiations take place at a national level within the context of the Budget Laws. With respect to powers the line managers would like to have, the agency feels that the desire for more regional autonomy is a constant in any organisation, especially with such a geographic dispersion, size and staff group variety, among other features, but that the current situation is appropriate.

### ***Mission statement/corporate plan***

The agency's mission is laid out in the legislation setting it up, and is related essentially to the effective implementation of the state's tax and custom system. The legislation also determines that the agency's Chairman must produce a Plan of Action and draft budget to meet its mission. The Department of Human Resources every year prepares a document outlining the objectives and most important actions to be taken over the next year to reach them. The sectoral action plans, in turn, include client responsiveness standards. The human resource policy is determined by the agency's general objectives. The agency's Strategic Plan defines the citizens' voluntary fulfilment of their tax obligations and the elimination of tax fraud as its overall objectives. Further, the General Plan of Action includes specific programmes, which set particular objectives and actions, in which all the departments and regional offices participate. Among these are the objectives, programmes and

actions related to human resources which, therefore, involve the Department of Human Resources in the organisation's overall mission.

### *Performance evaluation*

The general objectives of the Plans of Action are divided between the areas responsible and then broken down into the operational units that are to meet them. Objectives are therefore set for each area and unit, whose heads assign objectives to the individual employees. These heads are also in charge of the evaluation of individual staff.

The performance management system aims to improve results and staff performance. It is not the responsibility of the Department of Human Resources, but of the different central and periphery units in the organisation. In the case of the Inspectors and Sub-Inspectors, performance bonuses are related to objective targets (e.g. number of cases, amount collected). These vary from office to office because of differences in the make-up of the tax base in different given zones (e.g. agricultural versus industrial). In other areas performance bonuses are also paid, and it is up to the unit head to decide how it is done. In the Department of Human Resources' Technico-Legal Area, for example, the amount is divided equally, but in proportion to each person's position -- i.e. all have been given the same performance evaluation and then rewarded according to their position -- since the management is satisfied with the unit as a whole. The Tax Agency's head is interested in seeing the bonus being employed much more actively, as a management tool. The evaluation system of the top echelons in the organisation needs more developing, and HRM performance is not an important component. Service-level indicators are not part of the position descriptions, though they are part of the performance management system.

### *Evaluation of HRM*

No system has yet been established for the evaluation of the HRM function, though some specific and partial control and auditing actions have been taken. The agency's newness has not allowed for the establishment of an intra-organisational communication system with which to receive feedback on HRM, nor have surveys been conducted to this end. Communication within the agency is generally seen as very poorly developed, and an internal magazine would be considered a good step in this regard. Decentralisation of HRM, interpreted to mean the creation of the Tax Agency as a separate unit, however, is perceived very positively, though the problem, as reflected in the list of powers the agency would like, is that it is not seen to have gone far enough.



## HUMAN RESOURCE MANAGEMENT REFORMS IN THE SWEDISH STATE SECTOR'

by Bo Smith and Christine Lidbury

### Introduction

A large-scale programme of civil service renewal has been going on in the Swedish public sector for more than a decade. Management reforms include an emphasis on greater flexibility, increased efficiency and productivity, and better customer service. The national public sector has largely decentralised human resource management. Swedish officials report that it is not unusual for line departments to bear responsibility for a wide range of day-to-day personnel management. Government decisions in HRM have mainly been designed to create the necessary conditions for agencies to take on their new responsibilities. For example, several major initiatives contributing to managerial reform include:

- agreement on employment security (1990) making comprehensive structural reform and staffing reductions feasible;
- significant change in pay policy from centrally determined pay schedules to differentiated individual pay determined by local bargaining;
- comprehensive budgetary reform based on overall spending limits rather than detailed allocations in order to make feasible real decentralisation of responsibilities in HRM, as well as in negotiations with the unions.

As in many OECD countries, public sector renewal is being driven by serious budget and fiscal pressures. Sweden operates one of the largest public sectors among OECD countries. Public sector employees make up approximately one-third of the entire labour force. Public spending as a share of GNP is nearly 70 per cent -- the highest of any OECD country. The size and cost of the public sector has been an issue of increasing concern over the past decade as Sweden has grappled with problems of a large budget deficit, economic recession and high levels of taxation.<sup>1</sup> It has been noted that even without the budget deficit, spending cuts in the public sector would be required for tax harmonisation with other European countries.<sup>2</sup>

The magnitude of these financial pressures in the early 1990s led to a renewed emphasis on evaluating the scope and cost of the public sector with the desire for deep cuts in public spending. The result was significant restructuring of institutions in the national public administration (commonly known as the "state sector"). Reforms have included shifting functions from central to local government, reducing state control over local provision of services, creating share holding companies, public enterprises out of utilities and transportation services formerly delivered (and subsidised) by the public sector, and eliminating programmes and services that were seen as unnecessary or better provided by universities or the private sector. In the state sector some departments and agencies closed down altogether. In those institutions that remained, budgets and

staffing have often been considerably reduced. For example, the National Board of Education was reorganised into the National Schools Administration and its staffing reduced from 600 employees in 1980 to 150 employees in 1993.

Not surprisingly, accompanying these structural changes have been reforms in the way human resources are managed and, in particular, a growing emphasis on decentralising responsibility for resource allocation (staff and budgets) and operational decision-making in exchange for greater accountability. Much of the large-scale structural reform has only been taking place since the early 1990s. However, this can be seen as part of a larger change in thinking about the operations of the public sector that had been taking place since the mid-1980s. In 1985, a bill on personnel policy was introduced which called for decentralisation of HRM functions. The main purpose of this bill was to strengthen the connection between agencies, operational interests and their personnel policies. Three years later, the new budget system was introduced that also provided for a higher degree of decentralisation. These reforms have since been implemented and, in theory at least, give the agencies and institutions a much increased degree of managerial freedom in their use of both economic and human resources.

Given the backdrop of a severe economic situation and significant changes in the public administration, the purpose of this case study is to review the HRM situation in Sweden in the early and middle 1990s both in theory and in practice. The bulk of this paper looks at how HRM practices are functioning in three different public organisations: the National Insurance Board (*Riksföräkringsverket*), the National Tax Board (*Riksskatteverket*) and Sweden Post. In particular, attention is focused on strategic issues such as:

- the balance between centralised versus decentralised decision-making on HRM policies;
- perceptions of line and senior managers on the progress of reforms and effects on staffing and operations;
- integrating HRM issues into individual institutional strategic planning;
- linking HRM reforms to broader government-wide reform priorities.

### **HRM reforms in the Swedish state sector and the role of central management agencies**

Sweden operates a large public sector employing approximately 1.4 million workers -- nearly one-third of Sweden's workforce. Municipalities are responsible for, among other things, education, social welfare and municipal planning, and the regional county councils are responsible primarily for health and medical services. This local sector makes up the bulk of the Swedish public sector, employing 1.2 million workers. The remaining 250 000 workers are employed by the national administration or "state sector." This case study covers only the state sector.

The state sector is organised into two levels -- ministries and agencies. The former are primarily responsible for the framing of policy, and the latter for its execution. Swedish ministries are small by international standards, with a combined personnel strength of less than 2 000 people (excluding the Ministry of Foreign Affairs). In addition, there are nearly 100 central state agencies overseeing regional and local offices.

### **Public sector reform**

In the early 1990s, Sweden undertook a total reorganisation of the state sector with the aim of increasing efficiency, effectiveness and productivity. Demands to increase quality, better meet customer needs and offer greater customer choice and access were hindered by economic recession and lack of new resources for public programs. Demand for better results could only be met by more efficient use of available resources. The reorganisation included efforts to streamline and rationalise programmes, better co-ordinate with and decentralise to local authorities, and make wider use of contracting.

In the HRM area, reforms in the early 1990s included a programme of decentralisation which further shifted responsibility for staffing and organisational resources from central personnel offices of line departments to line managers. HRM reforms were based on a principle that managers can be accountable for results only when fully responsible for their operations (e.g. funding, staffing and organisation of work). There was also increasing concern that government programmes be able to compete successfully in the labour market. For example, in order to maintain their competitive standing, public service corporations needed the flexibility to develop remuneration packages on a par with those offered by the private sector.

Parallel to the programme of HRM decentralisation, Sweden introduced a new system of performance budgeting for the state sector. In theory, the new budgeting system would allow the central government agencies to influence the activities of individual ministries and institutions through a resource allocation and goal-setting process, but provide agencies with significant freedom in managing their day-to-day operations. The main elements of the new budgeting system included:

- Triennial budgets aimed at providing a degree of stability at a decentralised level.
- A more rigorous budgetary process every third year, where factors such as costs, goals, performance and effectiveness could be analysed in detail. In 1995, this policy was liberalised to hold reviews only as needed rather than on a fixed schedule.
- Increased managerial freedom at the department level in deciding how to allocate resources.
- An accountability and performance orientation via specified goals and outcomes for each institution and activity.

The overriding management philosophy behind both the budget and HRM reforms was simple. Central Government and the Parliament should be concerned with goals, quality of services and production, outcomes and total costs rather than micro-management through involvement in how the goals are achieved within the given resources. Day-to-day operations and the methods for achieving the desired outputs should be the responsibility of the local management. Every third year, Government and Parliament would have an opportunity for a more detail scrutiny of goals and resources, but in the meantime, managers would be free to manage in the ways they found most effective and efficient.

The political element of HRM decentralisation is also significant in the case of Sweden. Sweden may be a unique example of a country where public sector HRM, including wages, has been taken off the political agenda. This may be attributed to the confluence of a number of factors in play during the 1980s and 1990s, including:

- a severe economic crisis making it necessary not only to have a very modest wage development, but also to reduce the size of the public sector;
- a political-administrative system with unusually independent decentralised agencies and institutions;
- very strong unions accustomed to having direct access to Government and the possibility of working closely with the political level of the system (as a result of decentralisation, the political influence of unions is becoming limited and they can only claim access to issues directly connected to HRM in relation with their members);
- strong consensus since the mid-1980s toward strengthening local HRM responsiveness.

Swedish officials report that the managerial culture of the Swedish civil service has changed for the better in recent years. The success of decentralisation and devolution were seen to rest on a cadre of competent, results-oriented managers prepared to carry out their new functions. Traditionally, however, managerial skill was viewed as secondary to task-oriented, professional competence. While managers are still expected to be specialists in their fields, devolution also required them to be good managers. As a result, central management agencies have increased the emphasis on management training and development, including training in areas such as leadership, staff relations and performance management. Currently, each agency is responsible for its own management training (which may be bought from central government agencies or from the private sector market). In addition, the Ministry of Public Administration now runs a special management training programme for senior managers.

Under the reformed system, two central management agencies are responsible for sector-wide HRM policies: the Ministry of Finance and the National Agency for Government Employers. The Ministry of Finance is responsible for policy for top level civil servants and oversees the budget. The National Agency for Government Employers is a negotiation body representing public sector employers in negotiations over wages and other conditions of employment. In addition, the National Audit Bureau conducts reviews of human resource management practices in the Swedish public sector. Brief descriptions of the operations of these institutions are provided below.

### ***Central Management Agencies***

#### ***Ministry of Finance***

The Ministry of Finance is responsible for budget reform, budget development, personnel policy for senior civil servants, and pensions, and has overall responsibility for co-ordinating public management reform. In 1991, HRM activities in the Ministry were consolidated in a single organisational unit. Out of a total staff of some 270 workers, only 5 to 10 staff work directly on HRM issues.

The Ministry of Finance has primary oversight responsibility for the budget process. It gives advice to line agencies both on process and substance regarding the new budget system. The Ministry has also introduced a system of yearly "talks" between heads of agencies and individual ministers, and maintains informal contact with the departments and ministries to oversee agency progress under the new system.

A key element in the new budget system is the laying out of specific agency performance goals which can then be evaluated over the triennial budget cycle. To be effective, the goals must be operational and practical, that is, it should be possible for agency management to control whether or not the goal can be realised. So far, there is little information on how well the new system is working in practice. One test of the success of the new system will be whether or not the goal-formulating process is successful over time. Interestingly, while HRM reform and budget reform are part of the same reform philosophy, HRM elements are seldom linked explicitly to budget performance goals.

In addition to overseeing the budget, the Ministry of Finance has several central HRM functions. One of the Ministry's main HRM functions is to determine the wages for the heads of agencies and Director Generals. In overseeing policy for senior civil servants, the ministry works to maintain professionalism in management. The Ministry also works in an advisory capacity to departments on filling vacant positions, and has other miscellaneous functions, such as advising on whether a board of directors should be connected to an agency or directorate.

In the past, the Ministry of Finance also had an impact on HRM policy through the activities of the National Agency for Government Employers (which goes by the Swedish abbreviation "SAGE"). Having oversight responsibility for the SAGE gave the Ministry influence in other HRM policy areas, including negotiations of wages and conditions of employment. However, beginning in mid-1994, the SAGE became an independent organisation representing the state institutions and financed by contributions from the agencies or "member organisations" it serves (rather than funded directly by the state budget). SAGE's policy oversight will no longer be from the Ministry of Finance, but from an independent Board with representatives from the member organisations.

#### *The National Agency for Government Employers (SAGE)*

SAGE is the central agency in the Swedish state sector for human resources management. It is responsible for negotiations with the public sector labour unions on wages, pensions and general questions of public employment. It represents the interests of the state as an employer and co-ordinates human resources management between the state, county and municipal levels.

SAGE operates with approximately 100 employees. This staff level has been much reduced in recent years as HRM functions have been decentralised to ministries and agencies. In general, SAGE is organised into units responsible for different functional areas such as work environment, co-determination, qualifications, wage-policy, and job security. There is also a sub-structure corresponding to the different sectors represented by the agency such as defence, justice, and culture. SAGE operates under a Board of Director Generals. Having such a Board structure ensures regular dialogue with the ministries and agencies. In addition, ten delegations with representatives from the different sectors serve on an advisory body to the Board.

Beginning in July 1994, SAGE moved from its position under the Ministry of Finance to a new position as an independent agency financed by user contributions. This new status represents a significant transformation whereby SAGE will be operated, directed and financed by the various state employers rather than the central Ministry of Finance. This change, decided by the Government and the Parliament, was seen as a logical extension of the decentralisation scheme moving HRM responsibility from the central authorities to the agency level. The principle behind the move is simply that as each agency is given responsibility for HRM, including pay, those employers should also have the corresponding freedom to determine the form and content of relations and negotiations with the unions involved in those matters.

**SAGE** and the unions still conduct central negotiations for total wage increases and minimum wage increases. The minimum wage increase is fixed and applies to all state sector workers. Once this minimum is established, the individual agency employers can then negotiate at the local level for extra increases for groups or for individuals within the boundaries set for the total increase.

In principle, under the changed status of **SAGE**, the employers themselves will decide how the balance between central and decentralised negotiations will take place in the future. In practice, this means that policies regarding wages and salaries for individual employees will be decided at the local level. After negotiations with the local unions, employers are free to pay the employees a wage they determine as necessary or desired based on qualifications or market value. Only wages for the very top managers are settled centrally by the Ministry of Finance.

The change of status for **SAGE** is a result of reform ideas dating back to the mid-1980s. HRM reforms have led to a change in the relationship between the central management agencies and line agencies. Where in the past central authorities were responsible for policy development and only delegated administration to the agency level (i.e. a top down relationship), in the future it is expected that the agencies will have the principal role in HRM policy-making. Agencies and institutions will have the power to establish HRM policy. Moreover, it will be at agency discretion how much and which kinds of power to delegate upward to **SAGE**. For the present, however, decisions of the **SAGE** Board and its advisory body will guide the activities of the **SAGE** and maintain the decentralised nature of the process.

**SAGE** also has a number of additional HRM functions connected to its role as the employers' organisation. These functions include spokesperson, expert advisor, consultant and "educational" conduit -- all with the aim of making human resources management more professional in the Swedish public sector. Most of these functions were expected to continue even after the agency became independent. Promoting professionalism is seen as a task of particular importance as managers at the local level are expected to be able to handle new activities such as wage negotiations, individual pay (perhaps tied to performance), workforce adjustments and firings that had previously been handled at central levels.

As a spokesperson, **SAGE** identifies employer interests in new legislation or regulations and attempts to influence the decision-making process accordingly. In this regard, **SAGE** might intervene in political discussions on issues such as the work environment and occupational health services, labour-management co-operation, equity questions regarding men and women in the labour market, job security and limitations on workforce adjustments, and decisions or agreements to establish special funds for education or other purposes and how those funds may be used. **SAGE** also intervenes in court cases or complicated interpretations of legislation or agreements where employers have a specific interest.

In its management consulting capacity, **SAGE** provides expert advice to agencies on human resources planning, administration and management. It also conducts studies in these areas to keep abreast of the latest developments (as well as public sector labour market issues in general) which can then be passed back to its member organisations.

As an educational conduit, **SAGE** communicates policies and advice both bilaterally and through channels such as established networks, conferences and seminars. For example, **SAGE** has developed extensive and systematic contacts with human resources managers and personnel officers at the local level. These networks have been established both within each sector and geographically. In addition,

the agency is increasingly engaged in offering a broad range of teaching activities, conferences and seminars,

Decentralisation policies have raised a number of dilemmas for SAGE which had not been resolved at the time of this review. For example, it is not yet clear whether employers will want a system with a relatively strong central organisation, like SAGE, or whether they will prefer a smaller central organisation with more limited functions, leaving activity in the hands of individual employers. It is thought there may be different views on this issue between large and small employers in the state sector.

Early on, SAGE's organisational staffing and structure reflects the agency's focus on the broad, but specialised, range of HRM matters. Shortly thereafter, the member agencies decided that SAGE should be reduced by approximately 15 per cent. SAGE was also directed to restructure its work to focus more on strategic co-operation between agencies on HRM issues.

### *The National Audit Bureau*

The National Audit Bureau conducts studies and analyses of the cost and effectiveness of state administrations and institutions. The agency looks at all aspects of management and administrative structures, functions and systems and provides recommendations as well as analyses. Through special studies, the Audit Bureau has analysed human resources management in selected institutions.

The Audit Bureau has concluded generally that the level of staff qualifications has important consequences for the attainment of institutional goals. In order to create an effective public sector, it is crucial to focus on staff qualifications and methods to improve the level of qualifications.

According to Audit Bureau reports, departments and agencies in the national government have more freedoms to improve staff qualifications than are actually used by management or experienced by staff. In general, they have found that qualifications and staffing matters are critical but often neglected management responsibilities. This is seen as problematic because management must focus on HRM if efforts to improve the level of staff qualifications are to be successful. They conclude, further, that raising the level of qualifications is primarily a question of organisation; it is through the organisation of functions, moving personnel between different functions and creating the right "fit" between tasks, functions and personnel that qualifications, and eventually performance, can be improved.

The Audit Bureau has also analysed the reward system built into the reformed wage system and found that opportunities offered by the new wage system are not used as well as they could be. The system makes it possible to differentiate rewards to a much larger extent than is actually used. Moreover, the reward system has often been described as too passive and arbitrary, rather than active and planned.

According to the Audit Bureau, management should be concerned about the effects of decentralised HRM on the ability to maintain a cohesive institutional overview (particularly in the larger organisations) of managing human resources with common guidelines and co-ordination. They recommend that institutions try to integrate human resources management into the broader organisational strategic planning. They also highlight the importance of including human resources management in the detailed analyses and evaluations that are part of the triennial budget process.

## The Swedish National Insurance Board

The Swedish National Insurance Board (*Riksföräkringsverket*) has national responsibility for the Swedish social insurance system. It serves as the national agency responsible for the implementation of decisions of the Government and the Parliament in the insurance area. The Insurance Board comprises an elaborate insurance system with responsibility for:

- economic support to families with children;
- support in case of disability (for example, economic support, rehabilitation assistance, and compensation for handicaps and work related injuries);
- age pensions;
- various other insurances;
- efforts to prevent disease and injuries (only since 1992).

At the time of this review, the insurance system administered about 300 billion Swedish Kroner per year. The total volume of insurance payments equalled 30 per cent of private consumption. The system was financed through contributions from employers (based on total salaries paid) covering 60 per cent of costs, contributions from the state via a central fund and from the municipalities.

The total administrative system of the insurance administration consisted of the Insurance Board (as the national agency), 25 individual insurance organisations (*kasser*) and approximately 370 local offices. In total, the insurance system employed 15 500 workers of which approximately 690 were employed by the Insurance Board (430 at the headquarters office in Stockholm and 260 in a computer centre in Sundsvall).

In 1994, the Insurance Board's corporate goal was: to provide economic security for all Swedish citizens under all circumstances through the insurance system; and to prevent disease and injury. The agency wants to be known for its highly competent staff, high quality service and richness of initiatives. The agency had the following tasks:

- supervise the implementation of decisions, laws, and other regulations;
- analyse the effect of legislation and regulations;
- evaluate the service and information given to the public;
- evaluate the effectiveness of the administrative system;
- propose new legislation, regulation or other changes in the total insurance system.

For top management at the Insurance Board, the development of HRM policy over the last decade was seen as a revolution -- a radical change of paradigm. At the core of this change, the former Tayloristic philosophy had been replaced by a new philosophy that focused on the individual. Before the reforms, the organisational philosophy stressed the need for organisation, rules and procedures to achieve effectiveness. After the reforms, it became commonly accepted that it is the individual, and the ability to develop and use the specific qualities of each individual employee, that



is most important for success. Decentralisation is viewed as the logical extension of this new philosophy. Only in a decentralised organisation is it possible to give each employee the freedom that is required to find unique solutions to specific problems and operate most effectively.

This change in philosophy had significant management implications. The old system of designing the "right" organisation based on an analysis of tasks and relations to the clients and then trying to shape the employee to fit that mould, became counter-intuitive under this new management orientation. Under the new system, one would start with the employees that are already in the organisation and then design the management and organisational systems to match the qualities and needs of the employees. The crucial question became: how can we give the employees optimal conditions for development and the best environment for carrying out the tasks that need to be accomplished?

At the Insurance Board, the change in philosophy can be illustrated with several brief examples:

- In order to give the employees who deliver services to the customer freedom to give the best possible service, responsibility was decentralised to front-line personnel.
- The organisational structure of the individual insurance organisations was decentralised. Formerly, the Insurance Board decided on the organisational structure and on the relationship between the central insurance offices and the local offices. After the reforms, decisions on organisational structure were made down at the local office level.
- The Insurance Board appoints the managing director of each insurance organisation. In earlier years, the Insurance Board also appointed much of the management.

HRM within the Insurance Board and in the total social insurance system was also decentralised. The trend is away from management through rules, toward management through goals and objectives. In particular, recruitment, individual pay and training came to be decided primarily at the decentralised level. The personnel division in the Insurance Board continued to have consultative functions and to provide support and advice to line managers. The same applied to the separate insurance organisations. A special plan was developed describing the qualifications that the employees must have in the new organisation. It emphasised that employees should orient themselves upwards in the organisation and, in doing so, should be open to clues from the environment, their clients, and the public.

The relationship between the Insurance Board and the central political-administrative institutions, ministers, and departments began to function on informal contact and consultations. On average, there was an informal consultation between the minister and the top management of the Insurance Board every six weeks where all relevant matters could be discussed. In turn, the Insurance Board informed the minister about current work, new initiatives or changes of administration and present evaluations of its efforts. The ministers also had an opportunity to respond and suggest changes of policy or raise questions that she or he may want to have analysed.

This informal contact became seen as much more important than the yearly talks between the minister and the Director General. These talks were regarded as formal events within the constitutional system in which the Director General refers to the whole Government rather than to a specific minister. Furthermore, the concept of yearly talks operated on the assumption that ministers want, and are qualified, to manage when, in fact, ministers are not managers but politicians.

At the time of this review, management at the Insurance Board was sceptical about the new three-year budgetary system. They believed that it was unrealistic to assume that the financial framework for something as complicated as the insurance system could be fixed for a ~~three~~ year period. In reality, planning and decisions will have a much shorter timeframe. Indeed, more recently flexibility has been incorporated into the budget system.

The general evaluation of the changes in the HRM area, however, was very positive. These changes were an important factor in making it possible to develop the insurance system into a modern and well functioning administrative organisation.

### **The Swedish National Tax Board**

In 1994, the various Swedish taxing authorities were organised under the umbrella of the Swedish National Tax Board (*Riksskatteverket*). The National Tax Board was made up of both national and sub-national taxing authorities, including 24 regional tax authorities with 131 local offices and 24 regional enforcement authorities with 89 local offices. The total number of employees in the tax authorities was approximately 15 400 (1993), with approximately 900 staff employed by the National Tax Board, 11 600 at the regional and local authorities, and 2 900 in the enforcement authorities.

This case study focuses mainly on human resource management at the national level within the National Tax Board during the early 1990s, with only comparative references given to the role of this national authority in providing oversight and policy co-ordination to the sub-national levels.

Administratively, the National Tax Board operated with a Governing Council, a central management group, and centralised administrative units for services such as personnel, data processing and finance. The National Tax Board reported to the Ministry of Finance and the Parliament, as well as to the Ministry of Justice on questions of legal enforcement. Its programme and policy responsibilities included:

- taxation, including income tax, value added tax, and all other types of taxation excluding customs;
- enforcing debts from both private citizens and enterprises;
- civil registration;
- national elections and elections at the regional and local levels.

In the early 1990s, the National Tax Board went through a number of changes at the national and sub-national levels. The Swedish income tax system was altered and it was a major task to implement the tax reform. At the same time, resources at the National Tax Board were reduced while turnover dropped significantly (from 4.6 per cent in 1990 to 1.6 per cent in 1992). For the first time, it became necessary to lay off staff to meet reduced resource levels. A major internal reorganisation, "SOL 90", was also implemented.

In the coming years, the primary management challenge for the National Tax Board will be to change agency mission and priorities in line with directives from Parliament, as well as to continue to make efficiency gains in order to do more with less. For example, Parliament has directed that in the

future that less emphasis should be put on **tax** relations of ordinary citizens and special emphasis should be given to control of enterprises and efforts to limit economic crime. Such work, however, requires staff to have a different skill mix from those who served the agency in the early 1990s, such as skills in economics and corporate accounting.

In order to meet new demands in the workplace quickly and effectively, managers expressed a desire for greater flexibility in reorganising the staff and in replacing staff with outdated skills. Yet, despite the move toward decentralisation in the HRM field, managers noted that HRM practices in the National Tax Board continued to be limited in a number of ways by central rules. Limits came in the form of legislation on conditions of work and on consultation requirements and rules that applied across the state sector in determining which employees may be laid-off. Although there was already a trend toward more freedom for management and less detailed rules and regulations, in practice, in 1994 the Swedish state sector continued to exist under an elaborate system of rules governing the labour relations between employers and employees and conditions of the workplace. For example, if management at the National Tax Board wanted to reduce employment, it could not simply select those employees that management deems least necessary. Based on conditions outlined in a job security agreement that applies across the state sector, only employees in the specific area where the work volume is reduced could be targeted. In addition, seniority rules further govern the specific order of staff lay-offs.

At the time of this review, the agency did have more flexibility in the area of wages. In general, wages were being decided through a combination of centralised and decentralised negotiations. In the 1993 negotiations, the state sector's central negotiating authority, the Swedish Agency for Government Employers and the unions agreed on an increase of 3.5 per cent. Of this increase, 2 per cent was given to all staff as a minimum wage increase. The remainder was available for individual pay negotiated at the decentralised level. For the National Tax Board (and other agencies in the national public sector), this meant that management had to decide the level at which individual pay should be negotiated and which categories of employees would be included. It is important to note that, in the Swedish system generally, individual pay cannot be decided by management alone, but must be negotiated and agreed on by the unions.

Across the National Tax Board (national and sub-national levels), individual pay ultimately was allocated as follows:

- A distribution between different groups of employees was decided. The amount of money available was rather limited so it was not possible to reserve any part for groups to which management might want to give special priority.
- A set of criteria was decided on to guide the selection of employees that might get individual pay. The criteria emphasised professional skills, productivity and functions having contact with customers.
- Negotiations took place within each part of the organisation (the central National Tax Board and at the regional and local levels).
- The whole process was monitored by the personnel department in the agency in order to make certain that uniform procedures and criteria were followed across the National Tax Board.

In 1994, the National Tax Board operated a central personnel department to monitor changes and developments in the HRM field for both the national and sub-national levels of the Tax Board. For example, just a few years back, the key personnel problem was high turnover because up to 40 per cent of qualified staff left the administration within two years of entry. At the time of this review, personnel strategies needed to shift and face the reverse problem with almost no voluntary staff attrition. Other functions of the central personnel office included:

- central training programmes (the training system operates with a mixture of central and regionally operated training programmes);
- special training programmes such as management development;
- central guidelines in specific areas such as individual pay;
- general HRM support and advice to the regional and local offices;
- evaluations of HRM in selected regions (each year, eight regions are selected for detailed evaluations).

The Tax Board provided a number of other central administrative functions across its national and sub-national levels. For example, overseeing the appointment of the Director General and regional managers. Appointments to other positions (including executive positions), however, were more or less decentralised. There was also a central process for advertising management vacancies to all agencies under the umbrella of the Tax Board. Overall resource levels were also allocated centrally by the National Tax Board. The size of the regions varied considerably and when the various taxing authorities were consolidated under the National Tax Board, there were differences in the level of resources allocated from one region to another. It was thought to be more efficient to have resources allocated as part of the centralised budget procedure on the basis of more objective measurements such as work load.

It was only during the early 1990s that the regional taxing authorities were subordinated to the National Tax Board. Formerly, the operations of the local and regional taxing authorities were decentralised through the local state administrations. The new relationship between the central National Tax Board and the regional and local tax administrations became characterised by a degree of centralisation. At that time, there were a number of operational areas where organisational decisions were taken at the central level or within guidelines set by the National Tax Board, including:

- Rules and regulations for detailed tax administration and enforcement.
- Procedures specified as part of the design of national computer systems.
- Organisation design where design of a standard regional or local organisation is decided at the central level.
- The number of local offices. Recently, the Tax Board wanted to reduce the number of enforcement units at the regional level from 24 to 8, but this was rejected at a political level.

To co-ordinate the policy planning process across this wide variety of taxing agencies, the National Tax Board developed an elaborate planning system which, in principle, covered all activities in the organisation. The planning process involves the following steps:

- The executive level at National Tax Board determines the general goals in the main functional areas for the next year. These goals were then communicated down the management hierarchy to agency management at the central level and the regional managers.
- Goals and activities for the next year were discussed between the central level and the regional level. A number of committees were formed to assess the different tasks and functions. Planning for the next year was also an important topic at three annual planning meetings held for all senior managers.
- Goals and activities were decided for the regional level, as well as for the different units in the central units within the National Tax Board.
- More detailed goals were then discussed and decided upon for the local offices and the sub-departmental units.
- During the year, there was continuous monitoring of performance. It remains a major task of the central finance department in the National Tax Board to monitor whether plans are followed at the regional level and to initiate discussions with the regional management if actual performance appears to deviate from the plan.

HRM has become an integral part of the corporate planning process. Every regional unit was expected to analyse the qualifications and composition of the staff and evaluate whether it was adequate to meet future tasks. As mentioned above, there is a close dialogue between the regional management and the central personnel department. At the time of this review, there was a scarcity of personnel qualified to work with enterprises (a high priority for the Tax Board in coming years). It was the responsibility of the regional management to propose how the staff could be changed or developed in order to meet the tasks specified by the plans. On the basis of detailed HRM analyses and planning, the central personnel department stayed aware of its current staff situation and projected staffing needs over a five-year timeframe.

The structural adjustments taking place in organisations such as the National Tax Board also resulted in a new set of issues for the unions. A few years ago, the unions were concerned with efforts to make a career in the National Tax Board attractive in response to the high rates of turnover. In 1994, the unions were focused on organisational change, individual pay, lay-offs, demands for new skills and qualifications, and pressures for increased productivity.

In addressing organisational challenges, the unions agreed to co-operate with management at the Tax Board on changes in structural and productivity issues on the condition that they were consulted and that their views were considered appropriately. Where management demanded increased productivity, the main concern of the unions was to secure agreement that the quality of the workplace was maintained. They accepted individual pay and, as of 1994, management and the unions had come to agreement on the distribution of the money available for this purpose. However, the unions wanted to see a more transparent process with precise decision criteria that make it clear why certain employees got an increase while other did not. The unions advocated a system which provided equal proportions of increases to different categories of employees.

On the other hand, the unions were not supportive of decisions to lay off staff. The unions advocate increasing service and production levels rather than reducing the **size** of the staff. When staff were laid off, the unions demanded that considerable efforts and resources go into assistance and support. (The Job Security Agreement which applies across the state sector, negotiated with the unions, provided -- and continues to provide -- considerable protections **and** services to workers who lost their jobs through restructuring or redundancy.)

The top management levels of the National Tax Board worked within guidelines and goals decided by Parliament. This was done **through** legislation, specific decisions on tax issues, and in connection with the budget -- especially the more detailed triennial budget. There was also an informal dialogue with the Government. However, the day-to-day management of the National Tax Board **was** mainly left to the agency's managers. Managerial decentralisation was the formal policy in Sweden and was evident in the work processes.

With the changed status of the Swedish Agency for Government Employers (SAGE), employers such **as** the National Tax Board and other state enterprises had to make the decisions on HRM matters not covered by legislation. Wage negotiations became a managerial rather than a political issue. In this environment, which was new to the agencies at the time of this review, top management in the National Tax Board believed that there was a need for a central organisation such as SAGE that could negotiate on behalf of the entire state sector. They believed that it was necessary for the basic questions of a general wage framework and work conditions to be negotiated centrally rather than by each agency alone. However, this did not mean that SAGE had to be large. On the contrary, they agreed that **as much as possible** should remain decentralised.

Moving into the mid-1990s, the National Tax Board faced a number of human resources management challenges. There **is** concern about preserving the management's credibility to its staff during a period of rapid change. Continuity and exchange of information were seen as particularly important in the reform environment -- i.e. where the structure of the organisation, its tasks, and staffing needs were changing, while at the same time considerable numbers of staff were being laid-off and others being recruited simultaneously in response to changing skill requirements. Managers at the National Tax Board also believed that employees must understand and accept the changes if they were to be implemented effectively.

Looking ahead, there is an ongoing concern about increasing the level of qualifications generally within the organisation. This task is made all the more challenging with the very limited mobility available to staff. Finally, there is a concern that the National Tax Board remain an effective organisation **and** an attractive place to work. Although in the current Swedish labour market it is not difficult to attract qualified staff, the tax administration must keep a long run perspective of being able to recruit and retain a new highly skilled generation of employees.

## Sweden Post

Sweden Post is a state enterprise providing traditional postal services to Sweden, including national **and** international letter and parcel distribution, banking services and **the** Giro (a system for transferring money electronically or by letter). Prior to 1984, Sweden Post operated **as** a single organisation. In 1984, and again in subsequent years, it was subdivided into several business groups; two groups in 1984, four groups in 1988 **and** five groups in 1989. At the time of this review, these five divisions operated **as** independent enterprises with a single corporate headquarters.

In March 1994, Sweden Post moved a step closer to operating as a private enterprise when it changed from a traditional government organisation to a share-holding company. The Banking and Giro division already operated under this system. The decision to make the entire organisation an "aktiebolag" -- to put it on shares -- was part of a political strategy to facilitate independent, professional management and, ultimately, a more effective organisation. Under this arrangement, Sweden Post moved under the same legislation as private sector companies (although it continues as of 1996 to be wholly owned by the state) which allows for managerial freedoms equal to those of private competitors. Interestingly, social democrats in Parliament who originally initiated and supported the modernisation of the postal service, became sceptical of this change of status. There is concern that the next step may be to privatise the company by selling shares and that one consequence of private ownership might be lower levels of service, especially in the distant and more rural parts of the country.

Sweden Post has been through a major staffing rationalisation in recent years. Over a five-year period, the total number of employees was reduced from 72 000 to 50 000. In 1993 and 1994 alone, approximately 7 000 jobs were eliminated. In 1996, plans are in place to reduce staffing by another 7 000 employees. In total, this amounts to a reduction of 29 000 positions (40 per cent) by the end of 1996. Less than 3 000 of the lost positions were accomplished by firing workers; the bulk of the reduction was met through a hiring freeze and economic incentives for voluntary retirements.

The reform of the Post was mainly initiated by management itself. It was not coincidence that a number of the top positions were filled by managers with a background in private enterprise, although it is important to note that all major changes in the organisation were negotiated with the unions.

Despite the radical nature of the changes in Sweden Post, the unions have been accepting of the changes. The unions realised that the monopoly held by the postal system had survived through political protection based on its status as a vital service to the public. As Sweden Post faced increasing competition for its services from private sector companies, it also experienced changes in political and public expectations about service delivery. Accordingly, the unions accepted the structural changes of the Post into business groups. At first, the unions did not support the plan to change the formal status of Sweden Post -- its *aktiebolag* status -- due to concerns that it would lead to a change for the worse in employment conditions for workers. Subsequently, however, the unions accepted the changes and union relations with Sweden Post were normalised.

Within each of the five divisions, management functions were decentralised from corporate and division headquarters to the regional and local level. This decentralisation was seen as especially important in divisions that deliver service directly to the public, such as the two thousand local offices located across Sweden. For example, the banking service was organised into 13 geographic regions where each region had comprehensive management responsibility in its area.

At the time of this study, top management and control of Sweden Post functioned on an elaborate planning system which served as the focal point of corporate management. The system was designed at the corporate level and covers the entire organisation. Planning rested on three fundamental goals:

- **Efficiency:** on average, five per cent of operating costs were retained in surplus funds over a fixed number of years. Investment was financed out of the surplus funds.
- **Customer satisfaction:** customer satisfaction at all levels of service and across the entire organisation was tested through periodic surveys.

- **Employee satisfaction:** employee satisfaction was also tested through periodic surveys.

The planning process became an iterative process which started with the goals for the whole organisation and gradually moved down by level with goal setting for each division, headquarters units within the divisions and, finally, regional and local levels. The plan included the budget targets for each part of the organisation.

Once the goals were in place, management at the decentralised level had discretion in determining how to fulfil them. For example, the number of local offices was specified within each region, but regional management was free to try to reduce costs, for example, by co-operating with local stores in handling postal services: the point being that how local service functions were delivered was not determined centrally, but by local management. Staffing at the local level was also at the discretion of local management (within overall budget constraints).

**Human** resources management was also decentralised. While human resources management staff were in place at each level (corporate, division, regional and local), corporate staff was halved (from about 30 to 15) as a result of decentralisation. The functions that were still somewhat centralised through the corporate and division headquarters included:

- building human resources management into corporate plans and assessing how organisational changes in corporate plans affect HRM;
- negotiations with the unions;
- providing central guidelines and advice on organisation-wide issues (e.g. the pay system);
- handling special cases or conflicts where top management has an interest (e.g. lay-offs);
- organisation-wide education and training;
- follow-up on human resources management goals, plans and activities such as the employee satisfaction surveys and other contacts with managers, union representatives and individual employees, and tracking HRM and training expenditures.

Several important human resources management functions were decentralised from the headquarters to the regional level, including:

- hiring, volume and composition of staff;
- organisational structure for both the regional office and the geographic region (although, as noted, the number of offices in a region is fixed);
- dismissal (except disciplinary firing which occurs at the headquarters level);
- promotions (which must be approved two levels above the promotion);
- distribution of individual wages;
- education and training to improve staff qualifications.



The wage system at Sweden Post offers a good illustration of the flexibilities put in place by the national reforms to the public sector pay system. In common with other state institutions, Sweden Post continued to have a percentage of the annual wage increase negotiated at the central Government level. In the 1994 negotiations, the general increase (negotiated centrally) was 3 per cent. Initially, 60 per cent was earmarked for basic wage increases, but this could be changed through negotiations between Sweden Post management and the unions representing Post employees. The balance was reserved for individual wage increases negotiated at the local level. The central corporate management and unions provided guidelines for the local negotiations.

At Sweden Post, the individual wage system came to be used as a tool to provide economic incentives for meeting planning goals. One incentive was through bonus systems for management. The structure of the bonus system varied by division. For example, in the bank division, regional managers could get up to 75 000 Swedish Kroner per year in bonuses. The bonus were structured so that half of the bonus was tied to the economic goals for the region and the other half to customer and employee satisfaction measures. Out of 13 regional heads, 11 received bonuses in 1992 and 9 received bonuses in 1993. The same structure applied for the district heads (next level down), although the bonuses were somewhat smaller. At the time of this review, there were plans to implement similar systems down through the rest of the management ranks.

By way of contrast, in the Giro division, only 20 per cent of the bonus amount was paid out for individual managerial performance based on individual or unit planning goals. 60 per cent of the bonus was paid to managers only if the entire division reached its planning goals, while the remaining 20 per cent was held in reserve for two years and only paid if goals were met in both years two and three. The philosophy behind this bonus structure in the Giro division was to provide incentives for team thinking and sustained success of the entire division.

Despite the benefits offered by the move to individual business groups and decentralisation, one issue for the future is to maintain some continuity that keeps the organisation tied together. The reform of Sweden Post included both horizontal restructuring through the creation of five very independent divisions, and vertical restructuring through management decentralisation from headquarters down to regional and even local levels. Top management believed that a number of factors would keep Sweden Post unified as a "corporation", including:

- organisation-wide planning and goal setting systems;
- common principles for human resources management (including the wage system);
- corporate principles and programs in education and training, especially for managerial staff;
- centralised promotion decisions for the top 300 management positions.

Top management at Sweden Post recognised the important of maintaining the flexibility needed to be an effective, market-oriented organisation which could be competitive with the growing number of transport and service enterprises in the private sector. Management felt that the reorganisation was well on track and few structural obstacles remained. The primary challenge in coming years will be to move from changing structures to changing attitudes.

At the time of this review, cultural change was the next big challenge facing Sweden Post. The organisation was still staffed with managers and employees who did not entirely understand the

consequences and implications of a market orientation. Over the next few years, very high priority was expected to be given to management programs designed to create the new values and attitudes needed to bring about a new corporate culture.

There was a clear perception that radical changes would not have been possible if Sweden had not been in a state of economic crisis. It was with the backdrop of crisis that both the employees and the unions have accepted what amounted to a revolution in the management and organisation of this institution. Once the crisis is perceived to be met by staff and management alike, the challenge will be to maintain the momentum need to sustain the changes over the long term.

### Concluding remarks

Reforms in the Swedish public sector up to the mid-1990s were extensive and dramatic. In a national perspective, they constituted a break with principles and traditions. In an international perspective, the changes in the relationships between the political and administrative levels, as well as the marked decentralisation within the administrative levels, have been remarkable and far-reaching reforms.

Undoubtedly, it was the Swedish economic crisis that has made such radical reforms both necessary and possible. If the need to cut public expenditure and get more value for money had not be so obvious to both the public and to policymakers, it is hard to imagine that both the unions and the political parties would have accepted such broad reforms with such speed. This is not to say, however, that there would not have been reforms or that reforms would not have followed the same lines if the economy had not been in such a state. Both the budgetary and human resources reforms began back in the 1980s. The path and principles of reform were decided on before the economic crisis became manifest.

The most striking element in the changes in human resources management is the change of status of the Swedish Agency for Government Employers. The change of status means that wages and other personnel issues that are not subject to legislation will be taken off the political agenda. There are no other OECD Member countries where a similar development has taken place. At first glance it appears particularly striking because the unions in Sweden are so strong and hold considerable political influence. However, on reflection it could be argued that the strong position of the unions may be part of the groundwork that shaped the nature of the changes. Faced with the necessity of cuts and changes that the unions would be forced to resist, government may have had no other choice than to decentralise and cut the direct access of the unions to the national political system. Indeed, following elections in 1994, the new government declared faith in this new system and guaranteed that reforms would continue to move forward.

Based upon the confluence of factors such as economic crisis, need for change in terms of both cost and quality of service delivery, and the resulting need to reduce staff, it could be argued that only in a decentralised system would it be possible to meet the challenges. For example, it is possible for the management at Sweden Post to explain to their employees that competition and other new conditions make it necessary to change structure, reduce staff and introduce new pay systems. Because management can explain the changes as necessary steps to preserve jobs in the face of the changing economic and market forces, they can be accepted (at least to some extent) even though they require a break with basic entitlements and the culture of the organisation. If these changes were introduced and decided at the political level, they might be seen as making political sacrifices of public sector employees and denounced and opposed accordingly.

The Swedish case further illustrates that reforms are interdependent. Human resources management cannot be seen in isolation from the budget system or broader organisational structures. The impression gained from review of the Swedish situation is that successful implementation of public sector reforms requires working simultaneously with all aspects of the organisation. Moreover, it requires that all the changes must rest on the same principles, values and attitudes.

In Sweden, this co-ordinated approach began with a common perception of the situation and of the challenges to be met. The strong position of management in affecting change also illustrates that such changes do not have to be prepared in detail ~~from~~ the top. Where responsibility is decentralised, managers at each level may be expected to create strategies to meet the new situations and respond in accordance with the principles and goals voiced at the political level.

Public sector renewal has received high political priority in Sweden. Privatisation and market-testing of services that were formerly provided by the state sector is being encouraged in many areas. Restructuring and staff reductions are slowing in pace in recent years, but financial pressures indicate that such spending cuts will need to continue. In this context, there appear to be both short- and long-term challenges in relation to human resource management. In the near term, it will be important to implement the integration between strategic planning and human resources management planning. There is also considerable need to build capacity for performance measurement and evaluation. In the longer term, the most significant issue may be whether future political administrations will continue to stay out of agency operations -- for example, to accept that wages and important work conditions for public employees are determined by civil servants. There will undoubtedly be instances where institutions use the power of decentralised authority to do something that some politicians do not approve of or may want to change. Moreover, there will be instances where politicians will be under pressure to intervene in wage negotiations to protect the interests of individual groups of employees.

To date, the effects of current HRM reforms on the state sector are mainly positive. Agencies appear to have begun to assume their new responsibilities as employers and there are changes in attitude and culture appearing that some managers thought were impossible to imagine even ten years ago. In comparison with many OECD countries, public managers in Sweden enjoy considerable managerial freedoms: agencies are fully responsible for their own staff policies, financial management and, to a large extent, investments; moreover, agencies are free to determine their internal organisational structure, select working methods and combine production inputs in the ways best suited to their activities.<sup>3</sup> Despite what could have been a debilitating period of change and restructuring, the change in orientation from maximising resources to a focus on results is obvious and provides a stable groundwork for continued renewal.

## NOTES

1. Interviews and data collection for these case studies were undertaken in 1993 and 1994.
2. Dahlberg, Lars, The Swedish Experience of Decentralised Government through Agencies, paper presented in Barcelona, 12 February 1993, Public Audit Office of Catalonia.
3. Ibid.

## HUMAN RESOURCE MANAGEMENT REFORMS IN THE UNITED KINGDOM

by Sylvie Trosa and Christine Lidbury

### Introduction

The public sector in the United Kingdom has undergone nearly a decade of intensive reform and redefinition involving a range of structural, procedural, administrative and cultural changes. As in many OECD countries, public management reform was spurred by a variety of factors, including budget pressures and the need to control public expenditure after major growth in the public sector workforce during the 1970s; changing demands of the work and workforce brought on by the need for modernisation responding to social changes, changing workforce demographics, new technologies, and improvements in management systems; and, more recently, the demands of conforming to entry into the European Union. Three main policy initiatives, "Next Steps", "Citizen's Charter" and "Competing for Quality", laid the groundwork for public sector reform in the United Kingdom during the late 1980s and early 1990s and established the working framework for achieving reform goals. Under these initiatives the reform agenda was (and still is) predicated largely on two main policy priorities: establishing and carrying out clear standards of service and output targets (e.g. setting clear objectives, standards of service and targets of performance), and ensuring a continued focus on tightly controlling the costs of operating the civil service. In some cases, these priorities have meant assessing the appropriate role and scope of the public sector in delivering services.

Initially, human resource management did not appear as a specific reform theme, distinct from the larger public sector goals for efficiency improvements. The early focus was primarily on structural change through the creation of autonomous administrative units (line agencies) within larger departments and agencies. Under this new structure, senior management of each administrative unit is responsible for organising its resources, including staff resources, to best achieve expected organisational outcomes. The development of human resource management was viewed as a direct and automatic consequence of this autonomy. Managers in line agencies forced to attain difficult targets would organise the workplace and motivate their staff as needed in order to succeed. As a result, significant responsibility for human resource management processes were delegated away from personnel specialists in central management agencies to personnel departments in line agencies, and then further from the central departments in agencies to line managers.

In 1994, the Government widened the reform strategy and took on directly the issue of people management in the reform environment. Two White Papers set out the Government's proposed approach to the Civil Service, emphasising a unifying corporate identity while maintaining the strong emphasis on devolution and managerial flexibility as key levers in ensuring the Government continues to progress in its larger reform goal to improve performance and control costs.

### Redefining public sector management (1987-1993)

The main catalyst for the current reform agenda came through the introduction of the "Next Steps" initiative, launched in 1988.<sup>1</sup> The aim of this initiative is to deliver greater efficiency and better service to the public, including ensuring that the public sector provides only those services which are essential to the public service. The Next Steps Report (also known as the "Ibbs Report") concluded that there were three main priorities for change:<sup>2</sup>

- the work of each department must be organised in a way which focuses on the **job** to be done; the systems and structures must enhance the effective delivery of policies and services;
- **the** management of each department must ensure that their staff have the relevant experience and skills needed to do the tasks that are essential to effective government;
- there must be a real and sustained pressure on and within each department for continuous improvement in the value for money obtained in the delivery of policies and services.

The Ibbs Report scrutinised management in the United Kingdom's civil service and management support systems (e.g. personnel, budget, policy, leadership) that are supposed to assist management in both policy development and service delivery. Its findings highlighted a series of management problems centred around several consistent themes. These themes included, for example, inefficient and dysfunctional management practices resulting from a uniform civil service structure that lacked the flexibility to account for the size and diversity of the public sector; lack of accountability on the **part** of managers **due** to an overriding focus on inputs; and insufficient attention to operational "management" issues due to misplaced incentives which reinforced attention to immediate policy concerns over longer-term organisational investments such as improving service delivery and developing and communicating with staff.

Specifically as regards the state of management in the United Kingdom in 1987, the Ibbs Report found that while up to 95 per cent of management and staff in the civil service were concerned directly with provision of government services, regulations governing the operations of the bureaucracy were designed to serve the concerns of senior management and other more policy oriented officials rather than the vast majority of managers focused on service delivery. "Middle managers in particular feel that their authority is seriously circumscribed by unnecessary controls and **by the** intervention of Ministers and senior officials in relatively minor issues." (Ibbs Report, page 3). Along the same lines, the second major finding of the report highlighted the fact that, at that point in time, senior management in the United Kingdom was dominated by people who rose to their positions **based** on their skills in policy formulation, **but** who had little experience or expertise in management and service delivery. It noted that without experience, many senior managers lacked confidence in their own ability to manage and thus give the majority of their attention to policy issues, rather than service delivery and management of staff. Perhaps most significantly from a human resource management perspective, the study noted that with 600 000 employees the civil service was too large and diverse an entity to operate under a single organisational and regulatory framework.

"Recruitment, dismissal, choice of staff, promotion, pay, hours of work, accommodation, grading, organisation of work, the use of [information technology] equipment, are all outside the control of most Civil Service managers at any level. The main decisions on rules and regulations are taken by the centre of the Civil Service. This tends to mean that they are structured to fit everything in general and nothing in

particular .... In our discussions it was clear that the advantages which a unified Civil Service is intended to bring are seen as outweighed by the practical disadvantages.”

(Ibbs Report, page 5).

The primary recommendation for remedying these problems was to separate management and service delivery functions from policy functions. The core of the Next Steps programme centred on establishing a framework within which the functions of government would be carried out within clearly specified management units, referred to as Executive Agencies.’ The Prime Minister appointed a project manager to implement a progressive programme to work with departments to bring this about, identifying candidate functions and applying the lessons of experiences gained. The policy was also based on a recognition of the need for staff to be properly trained and prepared for the management of the delivery of services under the new structure. It was integral to the project that candidate functions should be tested against options, including abolition, privatisation, and contracting out, to see whether provision outside the public service was more appropriate and would provide better value for money.

In 1991, the Government launched the “Competing for Quality” initiative.<sup>4</sup> This marked an attempt to take the efficiency agenda and the idea of market testing government service, even further. “The Government believes that effectiveness and efficiency will be increased by distinguishing clearly between the Government’s role as a purchaser of services on the one hand and the task of providing those services on the other....Under the Competing for Quality and privatisation programmes, the way in which Government’s needs are met is exposed to competition, by privatisation, by contracting out for strategic reasons, or by enabling outside bidders to compete with the existing Civil Service supplier.”<sup>5</sup> As a result, market-testing and evaluating public sector programmes and services on the basis of quality, efficiency, and value for money, has become a regular feature of organisational management<sup>6</sup>.

In 1991, the Government also issued the Citizen’s Charter White Paper. A key policy document building on the priorities outlined in the Next Steps programmes, the Citizen’s Charter committed the whole public sector to a ten-year programme for improving the standards of service and making public services more responsive to customers and taxpayers. Executives in each agency are required to develop a set of standards outlining what the public can expect, as well as offering clients with avenues of recourse and compensation when standards are not met. As with the market-testing initiative, the Citizen’s Charter places heavy emphasis on public choice in selecting services and in competition. “As the Citizen’s Charter sets out, we believe that the further improvement of public services requires the substantial expansion of competition.”

By the end of 1993, 92 Executive Agencies had been launched (employing 60 per cent of all civil servants). By the end of the 1995, this number had increased to 109 Executive Agencies, employing 64 per cent of all civil servants. Under the framework provided by the Next Steps initiative, each Executive Agency is expected to be operated under a clear statement of mission, objectives, and responsibilities, along with clearly developed performance standards and targets for service delivery. Annual performance targets are approved by the Agency’s Minister. The Chief Executive of each Executive Agency was also given flexibilities in finance, personnel and other areas of management tailored to its unique circumstance and business. As noted in the 1993 “The Next Steps Review”:

“The Chief Executive of each Agency is personally responsible for the agency’s performance in relation to these objectives and targets. The agency’s performance is monitored by its department, and full details of the tasks the agency has been given, and

its performance against them, are published in its Annual Report and Accounts.” (page 7)

A distinctive feature of the Next Steps programme is the independence of a Chief Executive in managing agency operations. Chief Executives are given great discretion in managing their organisations in ways that are supposed to maximise their ability to achieve performance goals and targets. This principle has been reinforced in subsequent updates of the Next Steps Initiative.<sup>3</sup> In line with these objectives, management functions, particularly human resource management functions, have been substantially delegated from central management agencies (i.e. Treasury and the Office of Public Service) to Chief Executives, and further, from Chief Executives down to line management within the agency. As early as 1990 it was reported that the process of clearly defining aims and objectives within an organisation combined with delegating managerial authority and flexibility to achieve those tasks, was changing the organisational culture of the Civil Service to become more focused on outputs and results.<sup>4</sup>

### **Public management reform and human resource management (1994 and forward)**

Over a six month period beginning in June 1994, the Government issued two White Papers focused specifically on the civil service. These papers, “Continuity and Change” (June 1994) and “Taking Forward Continuity and Change” (January 1995), mark the first attempt in the reform process to address directly the Government’s policy on the civil service and human resource management, in the context of the larger reform agenda. The policy focus of these documents also represents a major shift from the earlier attention to structural change, and acknowledges that “improved performance depends above all on the effective management and the adaptability of staff”. Collectively, these documents re-emphasise a commitment to maintaining the values and framework of a career civil service as part of the ongoing process of public sector reform.

In terms of human resource management, the papers clearly articulate the Government’s commitment to ensuring the continued functioning of “the Civil Service as a good employer, ensuring equality of opportunity, maintaining a predominantly career Civil Service, and to the training and development of all staff”. The documents also redefine the role of the senior civil servants by creating an executive cadre, again putting a framework in place to maximise a unifying sense of corporate identity across the civil service. It is clear from these documents that it has become widely recognised in the United Kingdom that the capacity to achieve reform goals is inextricably linked to the framework of civil service employment and policies regarding HRM. To ensure a Civil Service that meets the challenges of a high quality public sector, the Government provides that it must:

“make better use of its most important resource -- the staff of departments and agencies -- by providing the prospect of a career with a good employer, offering challenge and reward; by developing their skills to meet the managerial, technical and competitive challenges they face; and by ensuring equality of opportunity for all members of staff .... Giving organisations and line managers clear responsibility for their results gives them a positive stake in taking responsibility for the management and development of staff. That is why, under the Next Steps Initiative, responsibility for personnel management has been devolved from departments to agencies. As defining the job to be done, setting clear objectives and targets and measuring performance extends more widely, more and more real responsibility for staff management and development is being passed to line managers both within agencies and the centres of departments. The change has already been dramatic.”



In the context of improving performance in the public sector and maintaining the focus on cost control, the White Papers give direct emphasis to two main sets of priorities for the civil service. First, the documents place emphasis on the importance of delegation and managerial flexibility as levers for achieving change. Such flexibilities are believed to give management the capacity to make strategic use of managing human resources in order to deliver substantial improvements in the performance of the public sector. Second, the Government reaffirms its commitment to sustaining a set of central values designed to offer a framework and sense of single corporate identity for the Civil Service. In "Continuity and Change" these values are defined as:

- integrity;
- political impartiality;
- objectivity;
- selection and promotion on merit;
- accountability through Ministers to Parliament.

As part of the process of instituting and reinforcing these values, the Government proposed to create a new Civil Service Code (promulgated in January 1996) and an enhanced role for the Civil Service Commissioners in ensuring that merit principles in staffing are maintained across the public service.

Among the specific management delegations proposed in the Papers are: greater autonomy in developing annual efficiency plans (i.e. assessment of how the unit plans to operate and meet objectives within running cost limits); extending pay and grading authority for staff below the senior level; and conducting agency reviews only every five years. The report also proposes greater innovation in departments and agencies through benchmarking, process re-engineering, and bottom-up staff input. Finally, as noted above, the reports propose a new structure for the Senior Civil Service designed to facilitate clear and consistent leadership in reform efforts. Among the proposals for the new Senior Civil Service are written employment contracts and improved career management and succession planning processes.

The public management reforms set in motion by the series of policy documents released since 1987 have established a clear and consistent stream of priorities for public sector managers. These priorities are centred on the decentralisation of management tools, agency performance measures and outputs, and managerial accountability. Follow-up reports and studies of reforms and reform strategies indicate that these policies have had significant influence on the way departments and agencies operate<sup>32</sup>. The increased emphasis on managerial accountability, separation of policy and service delivery functions, and maintaining a central framework unifying the civil service while continuing to push human resource management decentralisation as far as possible, imply dramatic changes in public sector management style and priorities. As early as 1990, it was noted that a key factor in the ultimate success of these accountability-based structures is to use the full managerial freedoms and incentives they are getting and delegate their operations to the lowest appropriate level<sup>33</sup>. The framework behind "Continuity and Change" goes a long way toward ensuring that management has the tools to achieve such successes.

### **Decentralisation of human resource management**

As noted above, a key feature of the United Kingdom's human resource management policy is decentralisation and delegation of authority. Decentralisation in this context is quite extensive, extending outwards from the central departments, the Office of Public Service (OPS) and the Treasury

to other departments (ministries) and executive agencies, and from central management to line management within departments and executive agencies. At the central level, OPS and the Treasury continue to provide central guidelines in areas such as good employer practices and merit principles, budgetary parameters, and ethics. Departmental Ministers continue to hold policy direction over departments and agencies, setting the broad policy objectives, directing the process of delegating management authority, and assessing agency performance.

Management in the Executive Agencies have experienced the greatest shift in responsibilities. In general, agency senior and middle management have responsibility for implementing programmes and service delivery, tailoring personnel management to meet the needs of the business, and managing the delegation of human resource management authority to line managers in the operating divisions. In addition, the end of detailed budgetary controls has meant that managers **must** take increasing amounts of responsibility for operating delegated personnel and pay systems in line with the overall resources allocated to the agency by the parent department.

Recent moves to decentralise pay structures and pay bargaining represent a significant step forward in granting departments and agencies increased authority for resource management. Delegation of responsibility for salary negotiations for all agencies with more than 5 000 staff came in April 1994, and for agencies of more than 2 000 but less than 5 000 staff in April 1995. All remaining departments and agencies will assume responsibility for pay bargaining from April 1996. At the same time, as part of the ongoing efficiency and improvement policy, managers in departments and agencies are also reviewing their pay and grading arrangements to ensure that these are appropriate to their business needs. As part of this process, they are encouraged to consult their own staff and representatives of recognised unions on pay and grading issues.

## **Human resource management in agencies**

### ***Flexibility in staff management and appointment***

Managers interviewed in the course of this review consistently expressed the goal of wanting to be fully responsible for the recruitment and promotion of staff and line-managers. All evidence indicates that this goal has been achieved in most agencies. Chief Executives indicated, however, that their principal concern was to have more flexibility in determining the staffing structure and assigning grades and salaries to individual staff.

This latter concern stems from the fact that a centrally determined grading structure has been applied across the whole civil service with common, centrally negotiated, pay scales. Because the grades were broad banded to accommodate roughly equivalent levels of responsibility in all departments and agencies, individual agencies were unable to develop staffing structures particular to their business and staffing needs. Lack of control over salary determination meant that managers were unable to reflect local labour conditions or to develop pay systems specifically designed to reward performance in ways appropriate to the business of the agency. The Employment Service was one of the first agencies to develop and introduce their own human resource management systems, including:

- abolishing the direct relationship between grade and salary;
- differentiating salaries by reference to functional activity and the difficulty of the responsibilities exercised;

- abolishing automatic promotions based on seniority and performance at promotion boards (this has since been implemented across the civil service);
- instituting mandatory advertising of all positions with freedom for individuals to apply and the line manager to be involved in the selection.

In addition, minimum education qualifications have been abolished. The pre-condition for access to jobs became job related competence where each recruitment or transfer to a new position occurs through an assessment of the individual's abilities to fill the job requirements.

As part of the shift from focusing on positions to focusing on individuals, the Employment Service has also set up its own training programme for new recruits. The investment in the individual is also evident in an annual employee attitude survey of the staff which has been in place since 1988 (complementing an annual customer satisfaction survey). The employee survey covers issues such as job satisfaction, the image of the organisation and changes to it, internal communication, training, personnel management policies.

The human resource management programme within the Employment Service developed from the strategic analysis carried out within the agency to assess the organisation's strengths and weaknesses in relation to client expectations. This analysis led to the identification of new management priorities. It also focused on redefining responsibilities at all levels of the organisation. Each manager was asked to develop job sheets for each grade describing the skills and abilities required for the job, as well as how the job relates to overall agency activities. Further, each staff member is required to develop an individual statement of performance goals and targets which is subsequently used to measure actual performance. The goal setting process is meant to foster management and team co-operation, although performance goals continue to be negotiated with staff on an individual basis. At an organisational level, a forum for innovations has been created and regional meetings are used to explore ways to foster personnel development and creativity in meeting broader agency goals.

### Performance-related pay

Performance-related pay is an element of pay systems across the civil service. Where pay has not been delegated (i.e. resulting in a system tailored for an specific agency), there are four basic approaches to performance pay:

- At more junior levels (below Grade 7) incremental progression through pay spines is directly related to an individual's performance rating in their annual performance appraisal: the higher the performance rating, the greater the number of increments earned.
- At more senior levels (Grade 7 and above) there are no incremental points within the pay ranges. All increases are related to performance ratings but within a fixed budget for each department. The higher the average performance rating, therefore, the lower will be the value of individual increases.
- At all levels, below the most senior ones, a special bonus system applies in addition to the annual performance related award. Variable amounts can be awarded in recognition of a particular achievement or effort. These bonuses are non-consolidated and non-pensionable.

- iv. For Chief Executives and other high level staff of Executive Agencies recruited from outside the civil service on fixed term contracts, different arrangements apply. In addition to a basic salary, often set to reflect market rates, these staff can earn annual bonuses of up to, typically, 10 to 20 per cent of salary (higher in some cases). These bonuses are directly linked to achievement of agency targets including both efficiency and quality targets. Civil servants appointed to Chief Executive positions can also opt to have similar bonus arrangements rather than their agency's existing performance pay system.

As departments and agencies take delegation for their own pay systems, they are able to devise other performance-related pay systems. In practice, most systems so far developed are similar to those described above. In agencies with more measurable outputs, however, pay increases tend to be directly related to the achievement of output targets rather than more general assessments of performance.

### Group bonus schemes

Only a few agencies have developed group bonus schemes. These tend to be agencies of a more commercial nature, such as trading funds that can measure definable unit costs or those that sell their services to customers. The level of bonus is determined typically as a proportion of unit cost reduction or cost recovering increases in excess of agreed targets.

The Vehicle Inspectorate, which was the first Executive Agency to have been created, has a group bonus scheme in addition to individual performance-related pay. The bonus is directly tied to the attainment of the organisation's performance goals. These goals are represented by a specific Agency indicators (based on the aggregate unit cost of its activities). If the goals are not met, there is no bonus. Moreover, the bonus is only awarded if staff exceed their goals.

Any savings generated are split between the Treasury and the agency. Initially, the agency portion was divided the remaining sum into two parts. The first part, with the bulk of the savings amount, was put towards a common reward for the entire staff (except for those whose performance was judged as not being up to standard, depending on their grades). The second was paid to divisional and department heads in relation to their management responsibilities. This second sum was much smaller and subject to assessment and prior approval by the ministry regarding whether the work over the year had been adequate. It was agreed in 1994 that a second-tier part (management additional payment) of the bonus scheme would be abolished, and the bonus is now paid in equal units to all staff groups. The 1995 Group Incentive Bonus was paid on this basis. Whether a bonus has been awarded has varied somewhat from year to year. For example, the Vehicle Inspectorate paid a bonus during the first three years of its operation (up to 1992 inclusive); no bonus was paid in 1993; and a small bonus was paid in 1994. To ensure financial accountability to the public in distributing productivity gains, the Agency's gains and bonus calculations are always checked by the National Audit Office.

At present, Agency management is considering how the group bonus scheme should fit alongside a revised pay and grading structure. They would, for example, like to better assess individual performance as a pre-condition of eligibility for the group bonus. In the near-term, a new three-tier performance management systems is being introduced during 1996. Agency targets will be divided into targets for each of the three Divisions; and each Division will sub-divide its targets into "defined team" units. Agency management reports that the agency structure lends itself to clear teams

distinctions, such as a Testing Station, within Vehicle Testing Division. This is intended to be the basis on which performance related pay will be assessed and distributed, beginning in 1997.

### **Decentralisation of union negotiations**

The Cabinet Office (the Next Steps team) encourages Agency management to include decentralised union negotiations in Framework Documents. Some agencies have managed to develop an effective relationship with local unions. The Recruitment and Assessment Service, for example, has set up informal monthly meetings with union representatives to covers a variety of subjects of general interest to the both parties. The new system for job evaluation was also discussed with the unions and they were involved throughout the process. The unions themselves are adapting to the reform and are starting to organise themselves geographically so as to have a more powerful presence within agencies. Any reticence on the part of management for decentralising union relations, when it does exists, was found more to be mainly from the managers in the central administrations in a Ministry or Agency who feared that local negotiations might lead to precedent-setting agreements that would have to be broadened for all personnel.

### **Examples of integrated human resource management programmes**

Several agencies reviewed in the course of this study had already established integrated human resource management programmes. One of the premier agencies in this regard was Her Majesty's Stationery Office (HMSO), which is the main supplier to Parliament and Government of publishing, printing, print buying, stationery and office machinery (including servicing). It is important to note that this agency is somewhat atypical of public service agencies for several reasons. First, it is a "Department", which means that there is no central administration between it and the Minister, although there is a specially appointed advisor to the Minister; and second, its function is primarily commercial (it is currently scheduled for privatisation in summer 1996). HMSO has historically had more management autonomy than the average agency giving it an advantage in the Next Steps environment. For purposes of this study, however, HMSO is interesting because it was the first agency to take advantage of delegated authority for pay and grading for office staff.

Observing that the tight links between grade, function, and salary were getting in the way of the flexibility and initiative required by the competition to which the Next Steps programme had exposed it, Agency management determined that it needed to restructure. They developed their own pay and grading system which replaced eight grade levels with 18 pay bands. Jobs could then be placed objectively in a pay band without unnecessarily adding to the hierarchical levels of a management structure. This enabled pay flexibility while giving senior managers freedom to design the management structure to better meet the needs of the work.

Management structures were re-designed to remove unnecessary levels and widen spans of control. All jobs were re-designed and individually specified with a precise description of the skills and abilities required to fill them. Jobs were allocated to a pay band through a formal job evaluation process designed with the help of consultants. All staff were then asked to re-apply for their jobs, or any others that they thought they were qualified to do.

This process took some six months of very hard work but it helped to break down the narrow attitudes associated with occupational groups and allowed easier access for specialists to a wider range of positions. Many people found themselves with greater opportunities than before the restructuring.

and some were able to jump, in one move, to positions that would either not have been previously open to them or might have taken many years of slow progression through the grades to acquire. The exercise also left a number of staff sidelined and unable to find a job at their previous levels. They were protected in terms of pay and conditions and were able to take voluntary early retirement if they wished. From the perspective of agency management, however, the process proved effective in starting a realisation of the need for cultural change.

Individual performance pay was part of the restructuring package. It was based around the concept of Key Targets (four to eight objectives which were quantifiable and measurable wherever possible) agreed between the individual and the manager each year. The conditions for award of this performance pay is meeting or exceeding the standards set for the Key Targets agreed with the manager. Typically, 70 to 80 per cent of the staff are awarded performance pay. The aim in developing this system was to ensure that each staff member was focused on activities that directly helped the Agency to realise its business plan, and make it clear that staff would only be rewarded to the extent that they did so. Thus, the use of Key Targets was also considered to be a contributor to the process of cultural change within the organisation. It was recognised that there is a balance between individual achievement and team work in achieving agency goals, and the HMSO scheme allows for some of the Key Targets to be linked to team performance at lower levels. This bonus has been financed by abolishing old-style incremental based pay increases and by the productivity gains that flow from better targeted efforts.

The restructuring of jobs and the introduction of performance pay led to an improvement in pay in HMSO greater than that in the traditional civil service system in earlier years, although this cost was in part offset by a reduction in staff numbers. The difference has since narrowed as the wider civil service has introduced performance pay. HMSO management negotiates its own pay with the unions. Agency management and the unions have always been able to reach agreement in salary negotiations since, as pointed out, the unions are well aware of the need for the business to remain competitive if the Agency is to survive. Agency management reports that the pay guidelines set by the Treasury have not therefore proved an undue constraint.

Another important part of the restructuring package was a system to ensure that individuals were encouraged to think constructively about their career ambitions and how this related to their training needs. The aim was to ensure that more of the responsibility for career progression and training was moved from management to the individual, again a re-enforcement of the new entrepreneurial culture. The focus on individual responsibility is complemented by internal Agency initiatives to identify and encourage those staff that it needs to develop for the future. The commitment to training remains high, but the inevitability of limited resources requires that management be strategic and targeted about training needs to maximise the positive effects.

Taking full responsibility for its own pay and grading issues marked a major step in HMSO's development from a civil service department to a fully commercial organisation headed toward privatisation. It had, both in the process of change and in the actual structure and systems resulting, major cultural effects with a new emphasis upon achievement. Though highly significant, changes in pay and grading were not sufficient in themselves to produce all of the changes that management wished to see and HMSO senior management has also committed itself to a wide ranging programme of other human resource initiatives based upon a decentralisation of operational facilities to business managers. Agency management reports that putting human resources in this context is designed to give the management of people a leading policy and strategic role.

Another interesting example of personnel management is offered by the Land Registry. This agency is responsible for land ownership. Like HMSO, the Land Registry is a department and operates on a commercial basis. Land Registry has developed an integrated human resource management plan which treats personnel as the primary resource of the organisation. The agency reports that each employee is supported to be best able to work under the best possible conditions and to receive fair recognition for the work and contributions. Managers reported that effort and achievement are recognised whatever the seniority level, hierarchical position or qualification.

Under the human resource management plan, the conditions of recruitment and promotion follow the general principles of the civil service, and at the same time try to be responsive to the particular staffing needs of the Land Registry. Responsibilities of the personnel department and managers are divided so that the personnel department provides support and guidance, while the manager is accountable for the direct management of staff. "The responsibility for the implementation of personnel management policies is in principle the domain of the directors of each department. The most common acts of human resource management must be delegated as much as possible. The task of the central personnel department is to lay down the general principles of the agency personnel policy, to co-ordinate department programmes on the issue and to play an advisory and support role. The questions to be referred directly to it are specifically enumerated."

The role of training is considered to be particularly important in the agency. Each employee is trained based on a detailed and individual plan. A global training plan sets out the training needs of the organisation. The goal is to reach 5 days of training per year for the entire staff, with the training linked to the objectives of the organisation.

Staff assessment is done in three parts: a performance assessment, an annual report, and a career orientation interview. The performance assessment is an appraisal conducted by the employee and the employee's supervisor based on initial goals set earlier in the year. This appraisal is open-ended and leads to a written summary. All employees and managers are subject to an appraisal. Following the interview, there is an annual report completed by the supervisor, including a personal assessment of the employee, what is expected of the employee in the coming year, and whether or not to seek promotion. This report is counter-signed by a manager from a higher level who ensures that the assessment criteria used throughout are appropriate. Once the report is completed, a high level manager holds an interview with the employee about future career goals and how plans might be developed to achieve those goals.

### **Issues raised by decentralisation and devolution of human resource management**

Discussions with managers and staff in agencies indicated most problems that have arisen in integrating new ways of dealing with the work and the structure of work, particularly the extensive devolution and decentralisation, can be linked to the challenges of managing "differences" (i.e. differences in culture, practices, policies) within and across agencies. It could be expected that in any system that was once based on a highly centralised body of regulations and practices, newly devolved management practices may face difficulties in implementation and acceptance based on expectation of equal and predictable treatment. Communication and openness with staff from the highest levels of management regarding the goals of broader public management reforms and the ways new human resource management practices contribute to those reforms were consistently reported by managers as being critical to widespread staff acceptance. In addition, it is clear from the United Kingdom experience that staff and unions need to feel vested in the process and be reassured that devolution will occur within a framework that ensures fair and equitable treatment.

In addition, as can be seen in the United Kingdom, the push toward competitiveness and market-type practices have left many of these organisations faced with the need for radical cultural change. The United Kingdom example also points to the fact that this is also true on a more micro level among central human resource agencies serving the public sector and individual human resource management divisions within Ministries and agencies. Agencies are now free to buy needed support services either from their related central administration or from some other supplier. The central departments which formerly enjoyed a monopoly now find themselves faced with competitors, which can give rise to problems of internal competitiveness, and insecurity and loss of perspective regarding the role of these central offices in supporting and meeting larger corporate goals. Operating successfully this new environment requires new skills on the part of managers and human resource professionals to balance different attitudes and cultures within different areas of a single agency or organisation and keeping each of the various elements within the framework of the larger corporate identity.

It was also clear from interviews, as well as government documents such as the 1994 and 1995 White Papers on the civil service, that the issue of "corporate identity" in a larger sense for the civil service as a whole, remains an issue of debate. The White Papers, in particular, offer testament to the challenges in maintaining civil service values and a sense of public purposes when department and agencies are given a strong message to operate on a private-sector type model, adjusting their internal people management to meet the unique needs of each agency or business. The analysis by the Government in the United Kingdom appears to be that the bridge to unify these diverse operations comes in the form of shared values regarding leadership and vision of the public service as a fair, equitable and ethical workplace. This United Kingdom's experience in implementing the principles laid out in these White Papers will be of much practical interest to the large number of OECD countries struggling with the balance between a unified civil service and devolved accountability.

There is still much work to be done on integrating human resource management into the everyday management of agencies. Independent studies by Price Waterhouse of human resource management practices in agencies and discussions with managers, show that human resource management flexibilities are exercised more reserve than financial flexibilities. Executives in the agencies believe that this is a transitional problem and highlight a need to ensure a moderate pace to change. They fear that the existing balances between different personnel categories are cannot changed too rapidly without discouraging personnel and endangering the productivity efforts demanded elsewhere. This may be a key lesson in mitigating the negative effects of change and gaining staff trust and acceptance of new workplace structures. Difficulties in achieving such a balance is observable in other OECD countries, such as in the Canadian public service, where long periods of difficult and sometimes controversial human resource management reforms have left the public service grappling with a "change fatigue" that appears to undermine both productivity and morale.

While pacing change may be one a factor in explain reluctance among managers to take on human resource management devolutions, another explanation may be found in the ranks of middle managers. As noted in the Ibbs report, incentives and rewards for managers are often in the area of financial management and policy formulation. As a result managers lack motivation, experience and even confidence in their ability to take on human resource management tasks -- tasks which have in past decades been viewed as a "soft" area of management and ancillary to getting immediate priorities met. While the culture in the United Kingdom in this regard has changed much since 1987 when the Ibbs report was released, it appears that this issue is still an obstacle to reform goals. The preference on the part of managers for financial management tasks rather than human resource management tasks may represent both cultural and practical conflicts between the more immediate demands of financial



management flexibilities and accountability for managing bottomline programme goals, and the less immediate (and perhaps personally more difficult) demands of managing the personal and career needs of their staff members. In this regard, attention needs to continue to be given to systems which reinforce devolution and serve to motivate and hold managers accountable for taking on human resource management functions, and, equally importantly, ensure that they are skilled and have the support they need to carry out these responsibilities.

Despite somewhat slow acceptance of new managerial freedoms for human resource management, several areas of people management in the United Kingdom's public service have demonstrated considerable advances in just a few years time. For example, devolution has given agencies much more flexibility in the areas of salary, grading and classification, opening up career opportunities and making career management more flexible for staff and managers. Management in many agencies have also made a significant effort in defining skills and abilities required for position in order for them to best contribute to the strategic goals of the organisation. In addition, seniority-based promotions have been abolished across the civil service in favour of individual assessment based on job-related merit principles, along with more targeted systems of individual or group performance awards. Some agencies have also taken on the sizeable (and risky) task of collecting attitude surveys from staff regarding management policies and staff expectations, contributing to the spirit of transparency and collective responsibility for achieving organisational goals.<sup>24</sup>

### Concluding remarks

Much has been written about the innovative public management reforms taking place across the public service in the United Kingdom, particularly as regarding the lessons and experiences that can be gained from the push toward competitiveness and market forces in operating and delivering public service, and privatisation and other initiatives to reassess the role and scope of the public service in delivery programmes and services. From the perspective of public service human resource management, however, the most interesting observation about the current set of reforms in the United Kingdom, is the renewed emphasis being given to the people side of public management reforms. As with France, which came to the conclusion that it is not sufficient to change rules and regulations without also putting in place mechanisms for the workforce to keep pace with the changes, the United Kingdom appears to be coming to terms with the idea that structural reforms do not in themselves lead to new means of carrying out the work. In fact, it could be hypothesised based on the discussion set out in the most recent set of White Papers on the civil service that structural change may have been running ahead of the capacity to keep an even pace of progress in meeting the reform agenda and maintain the momentum of the changes. Perhaps the most significant human resource management lesson coming from the United Kingdom's experience with reform is the importance of focusing on unifying principles and values for the civil service in order to create a practical and cultural corporate identity to stem the policy fragmentation that might otherwise occur in a system which promotes and rewards devolution and innovation.

## NOTES

1. Efficiency Unit, *Improving Management in Government: The Next Steps, Report to the Prime Minister* (Ibbs Report), HMSO, 1988.
2. From the Ibbs Report, as discussed in the *Next Steps, Agencies in Government, Review 1993*, HMSO, December 1993.
3. The Ibbs Report recommended that "agencies should be established to carry out the executive functions of government within a policy and resources framework set out by a department." Ibbs Report, page 9.
4. *Competing for Quality: Buying Better Public Services*, HMSO, November 1991.
5. *The Civil Service, Continuity and Change*, HMSO, July 1994, page 24.
6. See, for example: OECD, Public Management Committee, *Public Management Developments: Survey 1993*, Paris, 1993, page 179.
7. "This means that Chief Executives should have the managerial freedoms and flexibilities they need and that the disciplines to which they are subject should be related to the job to be done". *Next Steps, Agencies in Government, Review 1993*, HMSO, December 1993, page 8.
8. OECD, Public Management Committee, *Public Management Developments: Survey 1990*, Paris, 1990, page 112.
9. *Taking Forward Continuity and Change: Briefing Pack*, page 7.
10. *The Civil Service: Taking Forward Continuity and Change*, HMSO, January 1995, page 2.
11. *The Civil Service, Continuity and Change*, HMSO, July 1994, page 31.
12. See, for example, *Next Steps Agencies in Government Review 1993*, HMSO, December 1993, Sir Robin Butler, "The Evolution of the Civil Service: A Progress Report", *Public Administration*, Vol. 71, No. 3, September 1993, pp. 395-406; Doreen Wilson and David Wright, "Next Steps: inside perspectives on civil service reform in the United Kingdom", *Optimum*, Volume 23-4, Spring 1993, pp.44-52 and *Next Steps Review 1995*, HMSO, February 1996.
13. OECD, Public Management Committee, *Public Management Developments: Survey 1990*, Paris, 1990, page 113.
14. For example, a survey carried out at the HMSO identified staff perceptions that the transformation of the organisation into an Executive Agency had been too demanding and had affected morale; that only 40 per cent of management were interested in recommendations made by the staff; that 80 per cent of staff

wanted to participate in service quality programmes; that objectives were for the most part chosen without the participation of staff; and that 70 per cent of the objectives were difficult, but possible to fulfil.

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## Integrating People Management into public Service Reform

In the context of major public sector reform efforts in many OECD countries, increasing attention is being focused on the people-side of the reform equation – the human resource management policies and practices available to public sector managers to shape and direct the workforce to achieve new organisational goals. The experiences of OECD countries show, however, that improving individual policies and practices is only part of the reform equation. The **key** factor lies in integrating human resource management with the core business of the public service – the outcome and output goals of individual departments and agencies – and in doing so, ensuring that effective management of people is recognised as an indispensable ingredient for accomplishing the business of government. Using surveys and selected country case studies, this monograph identifies the factors driving human resource management reforms in the national public administrations of OECD countries. In offering the lessons drawn from these wide-ranging experiences to the attention of policy makers and practitioners, it identifies promising reform strategies for ensuring that human resource management policies evolve in ways consistent with broader public management reforms aimed at building more productive, performance-oriented and responsive public services.

